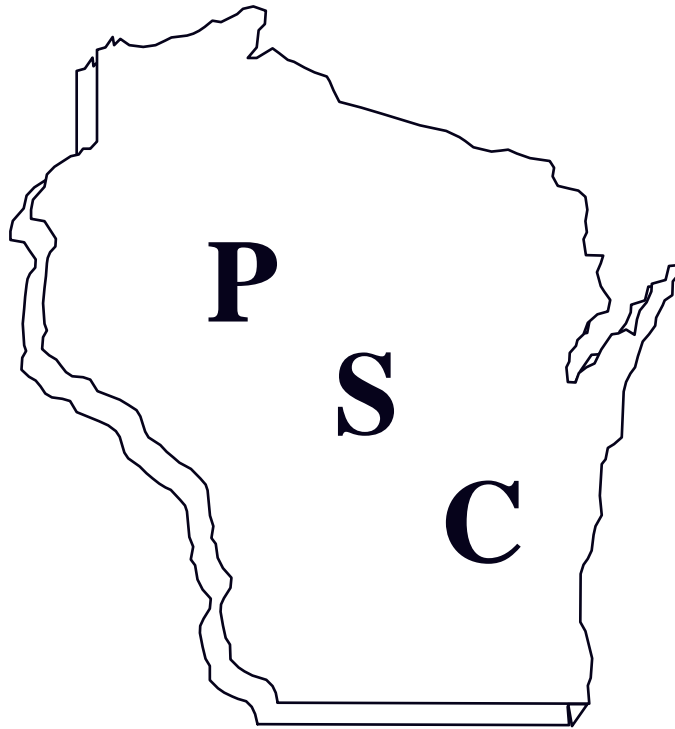


Audit Report on Alliant Energy Corporation 2002-2003



**Public Service Commission
of Wisconsin**

Approved by Commission: September 2, 2004

**PUBLIC SERVICE COMMISSION OF WISCONSIN
REPORT TO THE LEGISLATURE ON OPERATIONS
OF ALLIANT ENERGY CORPORATION FOR 2002-2003**

Background

Relevant Statutes

In November 1985, the Wisconsin Legislature enacted 1985 Wisconsin Act 79 (Act 79). Act 79 approved the formation of holding companies by non-telecommunication public utilities and created Wis. Stat. § 196.795.

Wis. Stat. § 196.795(7)(ar) provides that three years after the formation of a holding company under this section, the Public Service Commission of Wisconsin (Commission) shall report its findings under Wis. Stat. § 196.795(7)(a) to the legislature. Thereafter, the Commission shall submit to the legislature a report on the impact of the holding company, including the benefits and adverse effects on every public utility affiliate in the holding company system and on the investors and consumers of such public utility affiliates, at least once every two years. The report shall include any recommendations for legislation relating to the regulation of any part of a holding company system.

Alliant v. Bridge et. al.¹

In October 2000, Alliant Energy Corporation (Alliant) and Wisconsin Power and Light Company (WP&L) filed a complaint in the United States District Court, Western District, challenging the constitutionality of five provisions of Wisconsin law under the commerce and equal protection clauses. The four statutory provisions applicable to Alliant involve sections of the Wisconsin Holding Company Act, Wis. Stat. § 196.795 and the application of a section of the Act to Wis. Stat. § 201.01(2) making the public utility holding company a public service corporation rendering the issuance of securities by the holding company subject to Commission approval. The statutory provision applicable to WP&L is Wis. Stat. § 196.53, which precludes a utility from transferring to a foreign corporation any license, permit, or franchise to own, operate, manage or control any plant or equipment for the production or furnishing of heat, light or power.

The District Court dismissed the case for lack of subject matter jurisdiction because the matter was not ripe and there was no injury in fact. The matter was appealed to the 7th Circuit Court of Appeals and remanded back to the District Court stating that the complaint was justifiable. The parties both filed motions for summary judgment. The District Court granted the State's motion for summary judgment and dismissed the case rejecting the challenge to state law. Alliant appealed the matter to the 7th Circuit Court of Appeals. In May 2003, the 7th Circuit upheld substantial portions of the District Court decision. The 7th Circuit ruled that “a State is entitled

¹ ALLIANT ENERGY CORPORATION, Plaintiff, v. BURNEATTA BRIDGE, AVE M. BIE, AND ROBERT M. GARVIN, in Their Official Capacities as Commissioners of the Public Service Commission of Wisconsin, Defendants.

to regulate the financial structure and investments of companies that control utilities in that state. Otherwise it would lose considerable power to police the rates charged for the provision of utility service.” The only component of the District Court decision that was overturned was the ability of Alliant, as a holding company, to incorporate outside the state of Wisconsin.

Alliant filed a Petition for a Writ of Certiorari at the United States Supreme Court. The state filed a conditional cross petition. The Alliant petition was denied.

Alliant’s Holding Company System

On March 31, 1988, WPL Holdings, Inc. (WPLH) was formed and became the parent corporation of WP&L. On April 21, 1998, Alliant² was formed through a series of interrelated transactions with WPLH, Interstate Power Company (IPC), IES Industries Inc. (IES), and their affiliates. The Commission had authorized the reorganization, subject to conditions, on November 5, 1997, in docket 6680-UM-100.

The following report is in accordance with Wis. Stat. § 196.795(7)(ar). The report discusses the impact of Alliant on WP&L and WP&L’s investors and customers, as well as the nature of each nonutility affiliate. A recommendation for legislation relating to the regulation of holding company systems is also discussed.

The report includes analysis and review of financial data from 1997 through 2003,³ and audit findings and recommendations concerning certain cost allocations for the 2002-2003 period.

General corporate information is provided in Appendices A, B, and C. Appendix A is an organizational chart for Alliant as of March 2003. The major subsidiaries are WP&L, Interstate Power and Light Company (IPL),⁴ Alliant Energy Resources, Inc. (AER) and Alliant Energy Corporate Services, Inc. (Servco). Appendix B is a list prepared by Alliant of all the entities in the holding company system as of December 31, 2002. Appendix C is a list of Total Assets and Employees, and Assets and Employees located in Wisconsin, as of December 31, 2002.

Appendix D is a summary of Financial Operating Parameters included in various commission orders, Appendix E is the Audit Report for Alliant for the 2002-2003 audit period, and Appendix F is Alliant’s response to this Audit Report and to the Report to the Legislature.

Impact on Public Utilities

Section 1(7) of 1985 Wisconsin Act 79 provides that the public interest and the interest of investors and consumers can be protected if:

- (a) Transactions between a public utility in a public utility holding company system and the holding company or its nonutility affiliates are subject to public

² During the merger process, the reorganized company was referred to as Interstate Energy Corporation. On May 19, 1999, the company’s stockholders voted to change the corporation name to Alliant Energy Corporation.

³ Some data for 2003 is included.

⁴ IPC merged into IES in 2001. The name was then changed to Interstate Power and Light Company.

service commission approval and regulation to assure that reasonable prices are charged and costs properly allocated.

(b) The nonutility activities of the public utility holding company system do not substantially lessen competition, do not tend to create a monopoly or restrain trade and do not constitute an unfair business practice.

(c) The public utility activities of a non-telecommunications public utility in a public utility holding company system remain subject to public service commission jurisdiction and regulation.

(d) The activities of the public utility holding company system do not cause any materially detrimental effect on the public utility's rates for or reliability of utility service to the public, cost of capital or ability to raise capital.

(e) The public service commission has access to the books and records of the public utility holding company system to the extent relevant for the commission to regulate any public utility in the system.

(f) The provision of reliable and reasonably priced public utility service remains the predominant business of a public utility holding company system.

Wis. Stat. § 196.795(5)(g) further provides that:

No holding company system may be operated in any way which materially impairs the credit, ability to acquire capital on reasonable terms or ability to provide safe, reasonable, reliable and adequate utility service of any public utility affiliate in the holding company system.

Wis. Stat. § 196.795(5)(b), (j), (r), and (s), explicitly require the Commission's continued jurisdiction over public interest items (a), (c), and (e), above. Consequently, the following discussion, which summarizes the impact Alliant has had on its public utility affiliates and on the investors and consumers of such public utility affiliates, includes the size of nonutility business, financial impact, and the impact on utility rates and reliability of service.

Size of Nonutility Business

In its November 4, 1997, order in docket 6680-UM-100, which authorized the Alliant merger, the Commission found it in the public interest to limit the investment in the holding company and nonutility affiliates to 25 percent of the Wisconsin and non-Wisconsin utility assets of Alliant.⁵ It consequently conditioned the merger on the investment in the holding company and nonutility affiliates being limited to 25 percent of the Wisconsin and non-Wisconsin utility assets of Alliant⁶.

1999 Wisconsin Act 9 (Act 9) created Wis. Stat. § 196.795(6m)(e) in October 1999. Wis. Stat. § 196.795(6m)(e) provides a public utility holding company partial relief from limits on nonutility assets it may own if the electric utilities in the holding company system transfer their

⁵ 1985 Wisconsin Act 79 provides that the provision of reasonable priced and reliable public utility service shall be the predominant business of a public utility holding company system and created Wis. Stat. § 196.795 (5)(p).

⁶ Primarily pages 49 and 58 of the November 4, 1997, order in docket 6680-UM-100.

electric transmission facilities to a separate transmission company under Wis. Stat. § 196.485(5)(b). Alliant met the criteria for this relief on November 5, 1999.

As of December 31, 2002, total ineligible⁷ nonutility affiliate assets were 11.58 percent of total utility assets. On that date, the investment limit for nonutility investments, which equals 25 percent of total combined utility assets, amounted to \$1.194 billion while actual ineligible nonutility assets totaled \$553 million. This information is shown in more detail in Table 1.

Table 1
Alliant Energy Corporation
Utility and Nonutility Assets

	1996-2002 (\$1,000)						
	<u>2002⁽¹⁾</u>	<u>2001⁽¹⁾</u>	<u>2000⁽¹⁾</u>	<u>1999⁽¹⁾</u>	<u>1998</u>	<u>1997⁽²⁾</u>	<u>1996⁽²⁾</u>
A. Utility assets	4,775,751	4,380,431	4,380,993	4,183,755	4,123,224	1,664,604	1,677,814
B. Nonutility affiliates	552,859	441,450	556,515	434,154	910,239	192,500	216,771
C. Holding company and inter-company transaction adjustment						4,703	5,946
D. Consolidated	5,328,610	4,821,881	4,937,508	4,617,909	5,033,463	1,861,807	1,900,531
E. Investment percent (Lines B + C / Line A)	<u>11.58%</u>	<u>10.08%</u>	<u>12.70%</u>	<u>10.38%</u>	<u>22.08%</u>	<u>11.85%</u>	<u>13.27%</u>
F. 25% of total combined utility assets	1,193,938	1,095,108	1,095,248	1,045,939	1,030,806	416,151	419,454

(1) Excludes eligible assets under Wis. Stat. § 196.795(6m).

(2) 1996 and 1997 reflect WPLH information

In arriving at utility assets for 1999-2002 in Table 1, Commission staff adjusted Alliant's calculations to eliminate assets of Nuclear Management Company (NMC), Alliant Energy SPE LLC, Alliant Energy Transco LLC, and WP&L's allocated share of the assets of Servco. These assets are considered as eligible assets and are properly excluded from the nonutility assets in determining the asset cap limitation. However, these assets are held by nonutility affiliates, not by a public utility affiliate, and therefore do not qualify for addition as utility assets. In effect these assets are removed from both the numerator and the denominator for purposes of the asset cap calculation.

In reviewing the procedures for calculation of the asset cap in Table 1, Commission staff found one case where it appears the eligible versus ineligible assets were calculated incorrectly. Infratil Ltd. currently invests in electric service assets equal to about 44 percent of their total assets, according to information received in response to a Commission staff data request. If the electric assets meet the criteria in Wis. Stat. § 196.795(6m), subsection 2, it appears that 44 percent of the 2002 assets would be excludable from the ineligible nonutility assets total. No exclusion was claimed by Alliant.

⁷ These are assets of nonutility affiliates which are neither an "Eligible asset" nor a "Wholesale merchant plant" as defined in Wis. Stat. § 196.795(6m)(a)2. and 6., respectively.

Financial

Wis. Stat. § 196.795(5)(g) provides that no holding company system may be operated in any way which materially impairs the credit or ability to acquire capital on reasonable terms of any public utility affiliate in the holding company system.

To help ensure that the utility remains financially healthy, the Commission has established operating parameters including reasonable and balanced capital structures and dividend policies based on the utility's needs. Since the appropriate operating parameters that the Commission may establish can be expected to change over time as the public interest requires, Appendix D contains the detailed historical information necessary to evaluate whether WP&L is meeting the criteria that the Commission found necessary to ensure that the utility is able to provide reliable, low cost service into the future. Table 2 summarizes the dividend policies and reasonable equity ratios for the period 1997 through 2003.

Table 2
Dividend Restriction and Equity Range Statistics

	1997-2003						
	2003 ⁽¹⁾	2002 ⁽¹⁾	2001 ⁽²⁾	2000 ⁽²⁾	1999 ⁽²⁾	1998 ⁽²⁾	1997 ⁽²⁾
Actual common equity ratio – 13-month average regulatory equity ⁽³⁾	52.58%	44.05%	45.29%	47.95%	47.03%	49.97%	51.35%
Test Year Forecasted Equity Level ⁽⁴⁾	51.72%	44.67%	52.00%	52.00%	52.00%	52.00%	52.00%
Restriction Triggered	No	Yes	Yes	Yes	Yes	Yes	Yes
Restricted Dividend Amount (\$1,000) ⁽⁴⁾	70,580	61,981	58,344	58,344	58,344	58,344	58,344
Dividends Paid (\$1,000)	70,580	59,645	60,449	0	58,353	58,341	58,342
Equity Range, on a financial basis ⁽⁵⁾	47.5% to 54.0%	46.5% to 53.0%	45% to 50%	45% to 50%	45% to 50%	45% to 50%	45% to 50%

Source:

(1) Calculation for financial equity ratio includes off-balance obligations for purchased power and operating leases.

(2) Does not include accounts receivables sales.

(3) Calculated from WP&L Financial Operating Reports.

(4) From Docket 6680-UR-110 for 1997-2001, Docket 6680-UR-111 for 2002, and Docket 6680-UR-112 for 2003

(5) From Docket 6680-UR-103 for 1997-2001, Docket 6680-UR-111 for 2002, and Docket 6680-UR-112 for 2003

1. Dividend Policy

In early 1986, the Commission found that before WP&L invested in non-utility ventures, the company must first reach and maintain the 50 percent equity level determined reasonable by the Commission.⁸ With the formation of WPL Holdings, Inc., the Commission ordered that all dividends paid from WP&L to the holding company were to be passed through to the shareholders of the holding company until WP&L reached the equity ratio set by the Commission.⁹ Eventually the Commission withdrew the dividend pass through requirement, but restricted WP&L from paying any greater than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the

⁸ January 30, 1986, order in docket 6680-SB-101.

⁹ April 30, 1987, order in docket 9403-YO-100.

test year.¹⁰ This policy remains in effect to date although the levels of dividend and equity ratios have changed over time. Table 2 contains the dividend levels and equity ratios contained within the dividend restrictions for the period 1997 through 2003 along with the dividends paid and the equity ratios maintained by WP&L. With the increase use of off-balance sheet financing, the Commission expanded the ratemaking and financial capital structures to include recognition of the debt equivalents for off-balance sheet obligations, where appropriate.¹¹

As shown in Table 2, WP&L's average equity levels for 1997 through 2002 were below the test year forecasts established in dockets 6680-UR-110 and 6680-UR-111. Consequently, WP&L was restricted from paying dividends greater than the dividends forecasted in those dockets. WP&L's dividend exceeded the allowed dividend in 1999 and 2001. This issue was discussed by Alliant and Commission staff in the *Audit Report on Alliant Energy Corporation 2000-2001*. As a result of that discussion, the Commission revised the dividend restriction in docket 6680-UR-112 for 2003 to clarify that the pass-through to Alliant of subsidiary dividends paid to WP&L is included in the dividend restriction. WP&L's dividend did not exceed the restricted dividends in 1997, 1998, 2000, and 2002. In 2003 WP&L maintained its regulatory equity levels above that forecasted for test year 2003. The company is currently operating within the dividend parameters established by the Commission.

2. Financial Statistics

Dividend payment policy, however, is only one area of managing a reasonable and balanced capital structure. The common equity component of capital structure can be managed in two ways; either through dividend policy (i.e. the payment or retention of earnings) or by stock transactions (i.e. stock issuance or buy-backs). A growing company needs capital. Even in a good earnings year, a company may need to add equity beyond that obtained by retained earnings to meet its growth and balance its capital structure. Because a wholly owned subsidiary does not issue additional common stock in the financial markets, it relies upon its parent for capital contributions to fund the additional equity requirements. This means Alliant, or WPLH prior to the merger, would have to make any additional investment in WP&L through an equity contribution.

Table 3 shows the year-end capitalization for WP&L and Alliant (or WPLH). For each entity, two capitalizations are shown. The first is the booked capitalization. This contains the companies' securities that are recorded on the balance sheet. However, not all indebtedness is recorded on the balance sheet. In light of recent concerns regarding the amount of such off-balance-sheet indebtedness, the second capitalization incorporates adjustments for WP&L's, WPLH's and Alliant's off-balance-sheet obligations. The off-balance-sheet obligations consist of a portion¹² of the present value (10 percent discount factor) of operating leases and purchased power agreements, and 100 percent of the sales of accounts receivables.

¹⁰ October 13, 1988 order in docket 6680-UR-103.

¹¹ September 13, 2002 order in docket 6680-UR-111.

¹² The percentage of the off-balance sheet obligation factored into the capital structure varies based on an assessment of the obligation's debt equivalency. In Docket 6680-UR-111 for 2002, the Commission accepted the factors used by WP&L of 100 percent for operating leases and 60 percent for purchased power. In Docket 6680-UR-112 for 2003, the Commission found that a 60 percent factor for both operating leases and purchased power was appropriate. The correct factors will continue to be reviewed in rate cases. For comparability, the most recent factors of 60 percent will be used for 1997-2003 off-balance sheet obligations.

Table 3
Year-end Capitalization

	1997-2003						
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
WP&L							
Capitalization (in \$1,000)							
Common Equity ⁽¹⁾	1,011,837	766,699	701,930	662,560	599,097	559,930	585,739
Preferred Stock ⁽¹⁾	59,963	59,963	59,963	59,963	59,963	59,963	59,963
Short-term Debt ⁽¹⁾	0	60,000	90,816	29,244	125,749	76,799	81,000
Long-term Debt ⁽¹⁾⁽²⁾	468,344	534,830	535,547	579,444	477,840	472,975	421,874
Off-Balance-Sheet Obligations ⁽³⁾ (OBSO)	307,956	364,065	346,638	206,178	204,661	208,214	251,250
Common equity ratio - Booked basis	65.70%	53.94%	50.56%	49.77%	47.45%	47.87%	51.00%
Total Debt to Capital- Booked basis	30.41%	41.84%	45.12%	45.72%	47.80%	47.00%	43.78%
Common equity ratio - With OBSO	54.75%	42.94%	40.46%	43.10%	40.83%	40.64%	41.84%
Total Debt to Capital - With OBSO	42.01%	53.70%	56.08%	53.00%	55.08%	55.01%	53.87%
Alliant/WPLH ⁽⁴⁾							
Capitalization (in \$1,000)							
Common Equity ⁽⁵⁾	2,371,314	1,836,190	1,918,341	2,037,472	2,155,565	1,606,295	607,583
Preferred Stock at par value ⁽⁵⁾	249,963	209,963	116,352	116,352	116,352	116,352	59,963
Short-term Debt ⁽⁵⁾	128,995	309,221	152,722	444,735	424,719	116,284	123,095
Capital Lease ⁽⁵⁾	73,955	72,723	37,646	46,115	39,362	25,733	0
Long-term Debt ⁽⁵⁾	2,620,387	3,085,051	2,877,280	2,399,709	1,604,642	1,670,339	527,483
Off-Balance-Sheet Obligations ⁽³⁾	521,816	583,116	528,189	342,850	316,617	344,939	251,250
Common equity ratio - Booked basis	43.55%	33.31%	37.60%	40.39%	49.66%	45.44%	46.09%
Total Debt to Capital- Booked basis	51.86%	62.89%	60.12%	57.30%	47.66%	51.27%	49.36%
Common equity ratio - With OBS	39.74%	30.12%	34.07%	37.82%	46.28%	41.40%	38.71%
Total Debt to Capital - With OBS	56.07%	66.44%	63.86%	60.02%	51.22%	55.60%	57.46%
Sources:							
(1) PSCW Annual Reports – Financial Basis. Common equity for 2000 through 2002 excludes subsequent adjustments of \$33,000, \$22,000 and \$281,000, respectively, which were not reported on corrected PSCW Annual Reports.							
(2) Includes amounts booked as Advances from Associated companies. These amounts are associated with pensions for former WP&L employees working for Alliant Corporate Services, Inc.							
(3) Data from WP&L and Form 10-K to the Securities and Exchange Commission							
(4) 1997 reflects WPLH information							
(5) Form 10-K to the Securities and Exchange Commission							

As shown in Table 3, WP&L's financial capital structure, weakened from 1997 through 2001 as the company took on disproportionately more debt obligations, including off-balance sheet obligations, than equity. This occurred at a time when ratings agencies were looking for more equity to compensate for the increased business risks expected when the electric utility industry became deregulated and competitive. As committed by Alliant in its response to the *Audit Report on Alliant Energy Corporation 2000-2001*, Alliant made equity infusions of \$61 million in 2002 and \$200 million in 2003. As a result WP&L ended 2003 with a capital structure containing 54.75 percent equity, slightly above the 47.5 percent to 54.0 percent range established by the Commission. WP&L's equity is within the range for an "A"-rated utility.

Alliant has not fared as well. In the four years ended December 31, 2002, Alliant had taken on \$1.9 billion of debt obligations while adding only \$324 million of common and preferred equity.

On November 22, 2002, Alliant announced a plan of action to maintain a strong credit profile, strengthen its balance sheet, and position the company for improved long-term financial performance.

Table 4 contains additional financial statistics showing income before income taxes and pretax interest coverage.

Table 4
Selected Financial Statistics

	1997-2003						
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
WP&L							
Income before Income Taxes (\$1,000)	\$180,717	\$125,648	\$114,728	\$114,319	\$116,588	\$60,244	\$113,073
Pretax interest coverage ⁽¹⁾	5.77	4.13	3.64	3.56	3.84	2.65	4.47
Pretax interest coverage with OBSO ⁽²⁾	3.86	2.92	2.84	2.99	3.14	2.18	3.48
Earned return on equity-regulatory ⁽³⁾	12.24%	11.46%	9.33%	9.66%	10.66%	4.94%	10.75%
Earned return on equity-financial ⁽⁴⁾	12.56%	11.86%	9.74%	10.09%	11.19%	5.30%	11.32%
U.S. Treasury bond yields ⁽⁵⁾	5.02%	5.41%	5.49%	5.94%	5.87%	5.58%	6.61%
Alliant/WPLH							
Alliant/WPLH ⁽⁶⁾							
Income before Income Taxes (\$1,000)	\$295,950	\$142,450	\$245,070	\$620,770	\$317,067	\$154,788	\$89,969
Pretax interest coverage ⁽¹⁾	2.40	1.73	2.32	4.61	3.38	2.25	3.19
Earned return on equity ⁽⁷⁾	Not Reported	Not Reported	Not Reported	19.0%	10.5%	6.0%	10.1%

Sources:

(1) Calculated from Form 10-K to the Securities and Exchange Commission

(2) Includes estimated imputed interest for average operating leases and purchase power agreements

(3) Page F-9 of Annual Report to PSCW

(4) Page F-9 of Annual Report to PSCW

(5) Federal Reserve Statistical Release Website. Years 1997-2001 are for the 30-year average (statistics now discontinued), while years 2002-2003 are for the new long-term average (25 years and above).

(6) 1997 data for WPLH and 1998-2001 data for Alliant

(7) As reported in the Form 10-K to the Securities and Exchange Commission

3. Credit Ratings

Table 5 contains the credit ratings history for WP&L's preferred stock, commercial paper, long-term secured securities, long-term unsecured securities, along with WP&L's general corporate ratings from both Standard & Poor's Corporation (S&P) and Moody's Investors Services (Moody's).

Table 5
Wisconsin Power & Light Company
Corporate and Debt Ratings

	1997-2003						
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Corporate Ratings							
Standard & Poor's	A-	A-	A	AA-	AA-	AA-	AA
Moody's Investors Services	A2	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3
Long-term Secured Debt							
Standard & Poor's	A	A	A+	AA	AA	AA	AA
Moody's Investors Services	A1	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2
Long-term Unsecured Debt							
Standard & Poor's	BBB+	BBB+	A-	A+	A+	A+	AA-
Moody's Investors Services	A2	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3
Preferred Stock							
Standard & Poor's	BBB	BBB	BBB+	A	A	A+	AA-
Moody's Investors Services	Baa1	A2	A2	Aa3	Aa3	Aa3	Aa3
Commercial Paper							
Standard & Poor's	A-2	A-2	A-1	A-1+	Unrated	Unrated	A-1+
Moody's Investors Services	P-1	P-1	Unrated	Unrated	Unrated	Unrated	P-1

On March 3, 1998, S&P lowered the corporate credit rating of WP&L from AA to AA-. S&P lowered the senior unsecured debt rating from AA- to A+ and the preferred stock rating from AA- to A+. The ratings for the mortgage backed securities, the senior secured debt, remained unchanged at AA. In its announcement of the downgrading, S&P noted that the action was being taken "in anticipation of the upcoming merger that will create Interstate Energy Corp." Bond and preferred stock investors have seen the quality of the securities they purchased decline.

On March 26, 1998, Moody's confirmed WP&L ratings at Aa2 for secured debt, Aa3 for unsecured debt, and Aa3 for preferred stock.¹³ Moody's, however, notes in its confirmation that its ratings are based in part on the fact that the "Public Service Commission of Wisconsin has proscribed WP&L from paying any dividends that would reduce equity below approximately 52 percent of total capital." The Commission's current dividend restrictions are not as restrictive as those described by Moody's confirmation, as the restriction only limits dividends when a utility's equity falls below the stated level, it does not prevent the utility from falling substantially below the test year level. In addition, Moody's joint rating review (of WP&L, IES Utilities, and IPC) commented that debtholders have additional protections because of "the Wisconsin Holding Company Act, which will limit investments in unregulated business to 25% of the combined net utility assets of the three merged utilities." This statutory protection has been modified since the Moody's quote.

On January 26, 2000, S&P revised its outlook for Alliant and its subsidiaries, including WP&L, to negative from stable. In its release, S&P notes "The ratings reflect the strong business and financial profiles of the utility subsidiaries. . . However, Alliant's consolidated credit quality will be challenged by the company's focus on growing higher risk nonregulated businesses."

¹³ The rating criteria are independently set by the rating agencies and should not be viewed as identical. In addition, within each rating level there are ranges of expectations. In light of one agency downgrading a company, it would be an appropriate assumption for an investor that the company has slipped to a lower level within the other agency's rating range.

On October 17, 2001, S&P lowered Alliant's corporate credit ratings from A+ to A-, commercial paper ratings from A-1 to A-2, and senior unsecured debt from A to BBB+. In addition, S&P lowered the corporate credit rating of WP&L from AA- to A. S&P lowered the senior secured debt ratings from AA to A+, the senior unsecured debt rating from A+ to A-, and the preferred stock rating from A to BBB+. This represents a downgrading of two notches. In its announcement of the downgrading, S&P noted that "Alliant's consolidated credit quality is challenged by the company's focus on growing the nonregulated businesses." The year 2001 also saw the downgrading of WP&L's preferred stock by Moody's. Bond and preferred stock investors have again seen the quality of the securities they purchased decline.

On November 22, 2002, Alliant announced a plan to strengthen its credit profile. Although this plan, if executed properly, should in time, positively affect WP&L's credit ratings, this plan was not able to prevent two further down gradings; one by S&P and the other by Moody's. On December 6, 2002, S&P lowered Alliant's corporate credit ratings from A- to BBB+ and senior unsecured debt from BBB+ to BBB. In addition, S&P lowered the corporate credit rating of WP&L from A to A- and its commercial paper rating from A-1 to A-2. S&P lowered the senior secured debt ratings from A+ to A, the senior unsecured debt rating from A- to BBB+, and the preferred stock rating from BBB+ to BBB. Furthermore, on January 13, 2003, Moody's downgraded all of WP&L's ratings two notches except the commercial paper rating, which remained unchanged. Bond and preferred stock investors continue to see the quality of the securities they purchased decline.

Alliant's November 2002 strategic plan is intended to reduce acquisition expenditures and exit certain non-regulated business and strengthen its financial profile. However, as of May 24, 2004, S&P has indicated that for Alliant Energy, "financial performance at the consolidated level has improved over the last year, but remains weak for the rating category" and "Alliant Energy remains highly leveraged: . . . Moreover, these measures are unlikely to improve materially over the intermediate term."

As seen in the dividend policy and financial statistics sections, the Commission has established operating parameters for WP&L to maintain its financial health. While the maintenance of equity is more costly to ratepayers than that of debt, the additional equity allows the utility to weather economic shocks and downturns. This should be reflected in the credit ratings. However, in spite of the Commission's efforts to maintain WP&L's financial strength, the utility has seen substantial downgrading of its ratings, with the resulting increased relative cost of debt. S&P has noted that "In most circumstances, Standard & Poor's does not rate wholly owned subsidiaries that are core to the parent's strategy above the parent's rating. However, exceptions are made in the case of structural and/or regulatory insulation."¹⁴ WP&L's credit ratings are tied to its parent's ratings with minimal insulation. In the first five years since the formation of

¹⁴ Conversations with representatives of both S&P and Moody's reveal that, in general, the difference between S&P's and Moody's ratings reflect whether the rating agency believes that the utility is insulated from the other operations of the holding company.

S&P believes that the managers will manage the entire holding company together. It also believes cash can flow easily between affiliates and that it is difficult to make a case that a utility can be insulated from other affiliates. After developing a corporate rating, it evaluates the utility to see if it warrants a higher or lower rating than the corporate. Consequently, WP&L will be affected by credit down-grading of Alliant.

Moody's rating process begins with an analysis of the utility. It looks at safeguards to insulate it. Such safeguards noted in Moody's analysis include the Wisconsin asset cap, which limits a holding company's investments in unregulated business to 25 percent of the combined net utility assets, and WP&L's dividend restriction which proscribes paying any dividends that would reduce equity below approximately 52 percent of total capital.

Alliant, the management of Alliant appears to be making financial decisions that have been to the detriment of the debt holders, preferred stockholders, and ratepayers. As shown in Table 5, security holders have seen their investments impaired as the credit quality, and consequently value of their securities, were downgraded from AA-grade prior to the merger to A-grade or BBB-grade. In addition, ratepayers have been and will continue to be affected by the higher relative interest rates WP&L will pay to issue new debt which is lower quality than before the merger. Furthermore, as a wholly-owned subsidiary of Alliant, WP&L is dependent on Alliant to infuse WP&L with equity. The operation of the holding company has materially impacted the credit and cost of WP&L's credit.

Utility Rates

The formation of Alliant in March 1998, required WP&L to "freeze" rates for four years upon approval of their merger, except for fuel changes and uncontrollable increases in excess of \$4.5 million. During the freeze, a rate surcharge for Year 2000 computer expenditures was granted for \$1.2 million for the natural gas utility and \$5 million for the electric utility. Electric customers also had four emergency fuel increases and one performance based ratemaking decrease for a net increase of approximately \$76 million.

For 2003, rate changes were authorized consisting of a \$77,101,000 annual rate increase for Wisconsin retail electric operations (11.78 percent), a \$3,630,000 annual rate increase for natural gas operations (2.14 percent), and a \$100,000 annual rate increase for Ripon water operations (9.73 percent).

For 2004, rate changes are authorized consisting of a \$14,494,000 annual rate increase for Wisconsin retail electric operations (1.91 percent), a \$419,000 annual rate decrease for natural gas operations (-0.18 percent), and a \$17,000 annual rate decrease for Ripon water operations (-1.53 percent).

Reliability of Service

In its order approving the initial formation of WPLH in docket 9403-YO-100, the Commission stated that:

It is necessary for WP&L, as for any utility, to maintain its investment in utility operations in order to remain a strong, ongoing utility. This is a requirement of its franchise as a regulated monopoly. These utility investments can include, but need not be limited to, new construction of utility plant, utility system maintenance and upgrading, electric line loss reduction, conservation and other environmental considerations such as SO₂/NO_x reduction.

In evaluating a utility's commitment to reliability of service, the Commission looks at numerous areas including the volume of service complaints, levels and effectiveness of maintenance, construction and other costs expended to upgrade the system, and the level of activity in areas such as least cost planning and transmission planning. The following are comments related to the Commission's review of these areas:

1. Complaints

Complaints received by the Commission related to WP&L or to the Alliant holding company system have been relatively steady for 1999, 2000, and 2002 with a sharp increase in billing and credit complaints in 2001 as shown in Table 6.

Table 6¹⁵

Year	Number of Billing and Credit Complaints	Number of Service and Other Complaints	Total Complaints
1999	223	50	273
2000	258	33	291
2001	459	48	507
2002	286	25	281

In 2000, there was a 7 percent increase in total complaints with the greatest increase being in disconnection and other terminations.

In 2001, total complaints increased by 74 percent. The categories with the greatest increases include: billing procedures with 120 complaints, accuracy of billing with 63 complaints, and disconnection or termination with 227 complaints. During December 2000, WP&L did not read some of its meters due to heavy snow levels. December bills were based on estimates from the prior year, which was warmer and resulted in under-billing. In January 2001, the meters were read and many customers received large bills due in part to the under-billing in December. In addition, there was a substantial increase in the cost of natural gas between December and January. These two events required WP&L to make numerous adjustments to correct customer bills to reflect actual December and January usage.

The service related complaints were minimal for the entire 1998 through 2001 period and have decreased by 50 percent from 1999 to 2002.

2. Maintenance and construction activity

A historic comparison of the maintenance costs of WP&L and other major Wisconsin utilities has been provided below and as a part of prior holding company reports to demonstrate whether the formation of the holding company has had any material effect on the level of utility investments. This comparison is not as meaningful as it was in the past when pre-holding company costs could be compared to post-holding company costs, or when expenditures for companies in holding company systems could be compared to those that were not in such systems.

As of 2002, there are no major Wisconsin utilities that are not part of a holding company system. With the divestiture of transmission assets to American Transmission Company (ATC), and the transfer of the operation of the nuclear plants to NMC, the pot of dollars that can be considered comparable is shrinking. In 2002, WP&L and Alliant moved into its new corporate headquarters which is being leased. General plant maintenance for WP&L will no longer be comparable to

¹⁵ In the prior holding company report, both primary and secondary complaints were reported. Upon reconsideration, it appears counting only the primary complaint as reported on the PSCW website may be a more accurate presentation. Based upon review during this audit, several complaints during the 1999-2002 period were found to be incorrectly coded as Alliant complaints and have been reclassified as WP&L complaints.

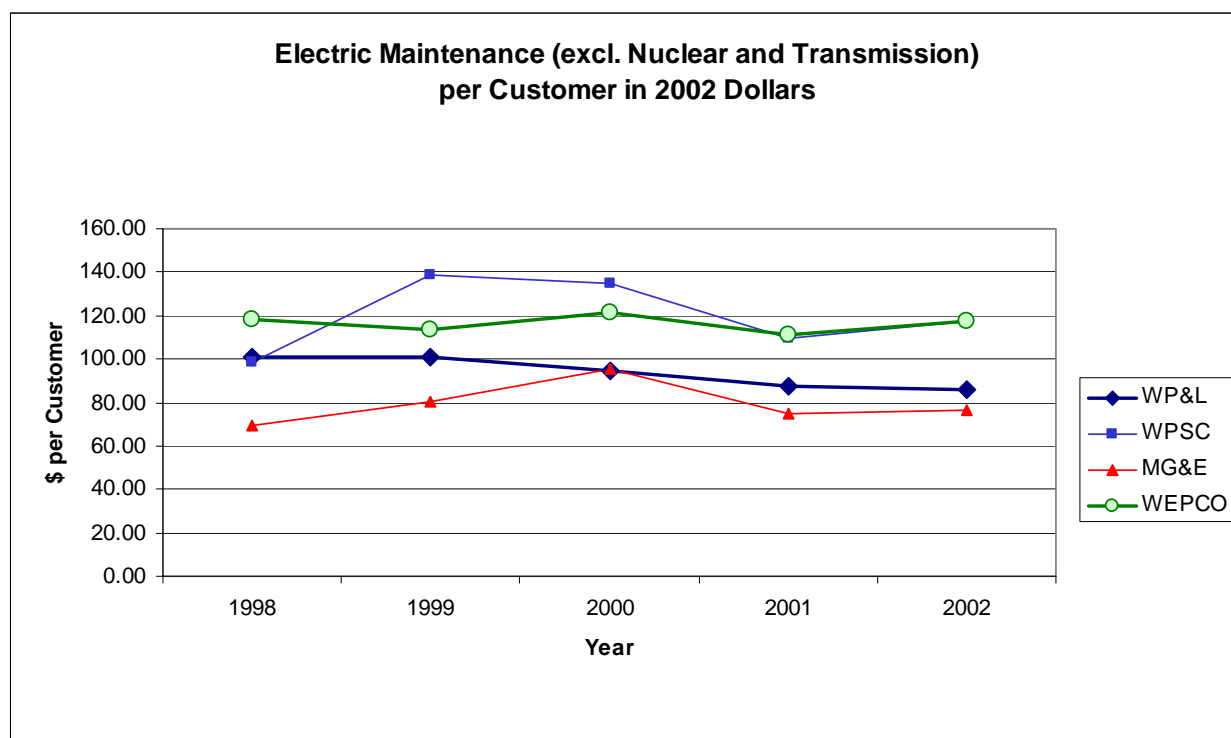
other Wisconsin utilities that own and maintain their corporate headquarters. Excluding general plant maintenance in order to keep the various utilities on similar footing will further erode the pot of maintenance dollars being compared.

Total electric maintenance expense per customer for WP&L, restated in 2002 dollars¹⁶ and excluding nuclear and transmission maintenance,¹⁷ was \$100.70 in 1998 and decreased to \$86.16 per customer in 2002 as shown in Table 7.

WP&L's total gas maintenance costs per customer, as shown in Table 8, decreased from \$26.83 in 1998 to \$23.18 in 2002 as restated in year 2002 dollars. Madison Gas and Electric Company's (MGE) and Wisconsin Public Service Corporation's (WPSC) costs were also decreasing for the 1998 through 2002 period. Wisconsin Electric Power Company's (WEPCO) costs show an increase, but Wisconsin Gas Company's (WGC) costs show a decrease.¹⁸

Nothing in the trends provides any evidence that the formation of the holding companies has harmed the utilities.

Table 7

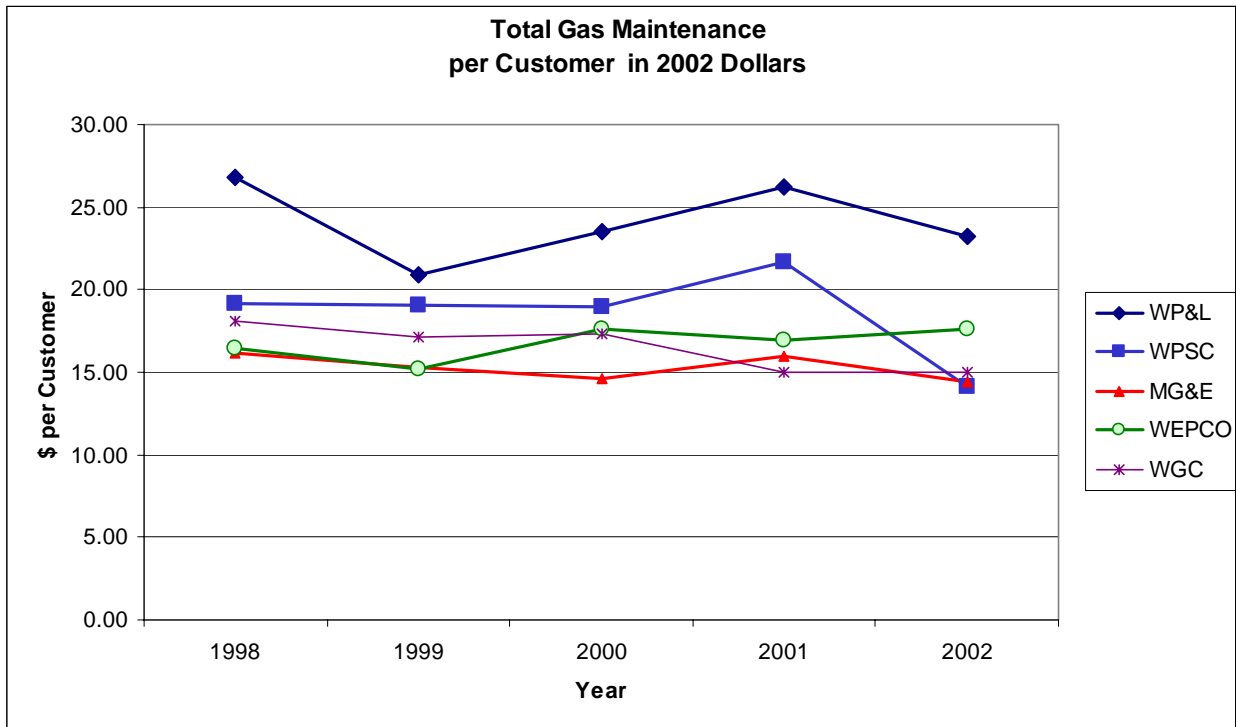


¹⁶ In order to recognize the impacts of inflation on utility costs and make comparisons more meaningful, Commission staff adjusted the reported maintenance and construction costs for each utility to restate the figures in 2002 dollars using the Handy Whitman Index.

¹⁷ Since nuclear maintenance costs are controllable by WPSC as the operating partner, and transmission costs are controllable by the ATC as of January 1, 2001, these costs were excluded for purposes of this comparison.

¹⁸ WEPCO and WGC are part of the WEC holding company system and do business as We Energies.

Table 8



Completed construction expenditures for WP&L (stated in 2002 dollars) averaged approximately \$153 million for 2000 through 2002, which compares to an average of approximately \$129 million for 1997 through 1999 as restated in 2002 dollars. Expenditures reached a high point in 2002 of \$170 million.

In order to reduce future energy demand and the need for new expensive power plants, WP&L provides Commission-approved energy efficiency services to its customers. Prior to the formation of the holding company, WP&L had conservation expenditures of less than \$6 million per year. In the first four years after formation of the holding company, 1988 to 1991, WP&L spent over \$73 million for energy efficiency programs. In the last ten years, WP&L spent over \$145 million on Commission-approved energy efficiency programs, with expenditures remaining at about \$21 million in each of the last three years.

3. Planning activity

In 1975, the Wisconsin Legislature created¹⁹ Wis. Stat. § 196.491 that provided an “advance plan” process to inform the Commission and the general public of the electric utilities’ plans to meet their customers’ needs. The Commission’s advance plan process required the utilities to file generation, transmission, and energy efficiency plans every two years for Commission approval. 1997 Wisconsin Act 204 changed the statutes, replacing the advance plan process with a Strategic Energy Assessment (SEA). Investor-owned utilities still provide data every two

¹⁹ WP&L will continue to provide energy efficiency services with the remainder of the its energy efficiency funds, about \$11 million in 2003. The largest share of these dollars will be used to continue WP&L’s Shared Savings Program for commercial and industrial customers.

years, but the Commission prepares the SEA. WP&L filed its information for the first two SEAs in February 2000 and 2002.

In 1995 and 1996, WP&L spent less than \$10 million on energy efficiency. WP&L's spending level increased steadily until it reached over \$21 million in 2000. WP&L's spending level has remained steady at about \$21 million since 2000. These expenditures have resulted in energy savings of more than 800,000 MWh since 1995. WP&L continues to include a substantial amount of energy efficiency in its plans to meet the future electric needs of its customers, despite fundamental changes to the delivery of energy efficiency in the state. The passage of 1999 Wisconsin Act 9 made the Wisconsin Department of Administration (DOA) responsible for public benefits programs, which include energy efficiency programs. WP&L was required to begin transferring energy efficiency funds to the DOA for public benefits programs beginning in 2001. In 2001 and 2002, WP&L transferred about \$2.5 million of its energy efficiency dollars to the DOA. This amount will increase to over \$11.5 million in 2003, as the three year transition period to public benefits will be complete.

Based on our review of the above areas, it appears that the existence of a holding company structure has not harmed the quality of utility service.

Business of Nonutility Affiliates

The legislature found in Section 1(5) of the Wisconsin Act 79 that:

The public interest and the interest of investors and consumers can be benefited if public utility holding companies, in the service territories of their public utility affiliates or in this state:

- (a) Conduct substantial business activities.
- (b) Attract new businesses.
- (c) Expand existing businesses.
- (d) Provide investment capital for new business ventures.
- (e) Otherwise directly or indirectly promote employment and commerce.

Wis. Stat. § 196.795(7)(a) provides that as part of the Commission's investigation of the impact of the holding company, a determination should be made whether each nonutility affiliate does, or can reasonably be expected to do, one of the following:

1. Substantially retain, substantially attract or substantially promote business activity or employment or provide capital to businesses being formed or operating within the wholesale or retail service territory, within or outside this state, of any public utility affiliate.
2. Increase or promote energy conservation or develop, produce or sell reusable energy products or equipment.
3. Conduct a business that is functionally related to the provision of utility service or to the development or acquisition of energy resources.

4. Develop or operate commercial or industrial parks in the wholesale or retail service territory of any public utility affiliate.

A list of Alliant's nonutility affiliates as of December 31, 2002, is included as Appendix B. This list indicates how Alliant classifies each entity as being in compliance with Wis. Stat. § 196.795(7)(a) and is discussed in more detail below. Appendix C is a list of Assets and number of Employees for the major affiliates in total and located within Wisconsin.

Compliance with Wis. Stat. § 196.795(7)(a)

The list of nonutility affiliates provided by Alliant, included as Appendix B, includes many utility ventures located in foreign countries, and several RMT companies which are located outside of the WP&L wholesale or retail service territory. According to Alliant, these comply with the above statute by being functionally related to the provision of utility service or to the development or acquisition of energy resources.

There is no true definition of the term “functionally related” within the Wisconsin Statutes, legislative history, or in state case law. The United States Supreme Court looked at the term “functionally related” in *Securities Industry Association v. Board of Governors of the Federal Reserve System*, 468 US 207, 82 L. Ed. 2d 158, 104 S.Ct 3008 (1984). The court dealt with the issue of whether the Board had the power under the Bank Holding Company Act to determine if a bank holding company could acquire a non-banking affiliate engaged principally in the business of a retail securities brokerage and was “closely related” to banking. The Court noted the difference between “closely related” and “functionally related.”²⁰ Congress was found to have rejected the “functionally related” test and the Court stated it thought the “closely related” test broadened the Board's powers. Thus, it could be inferred that the “functionally related” test is more restrictive.

On this basis, it appears that the RMT companies which provide environmental engineering and consulting, Alliant Energy Transportation, Inc. which provides storage facilities and railcar inspection services, and investments in utilities in foreign countries, although related within a broad sense, may not be “functionally related” as required by this statute.

In the prior holding company audit, Alliant listed two telecommunication affiliates as being exempt under Wis. Stat. § 196.795(8). This section exempts telecommunications utilities from regulation under the holding company law. The telecommunication affiliates are now listed as being exempt under Wis. Stat. § 196.795(3) by being “functionally related” to the provision of utility service or to the acquisition of energy resources. A narrow definition of “functionally related” would probably not encompass telecommunication companies.

Based on the above it appears that some of Alliant's nonutility affiliates do not comply with Wis. Stat. § 196.795(7)(a). Some of these nonutility affiliates (such as the RMT companies, telecommunication companies, and Alliant Energy Transportation, Inc.) may qualify as “eligible assets” under Act 9 which is discussed below.

²⁰ See ID. At 215 n. 12.

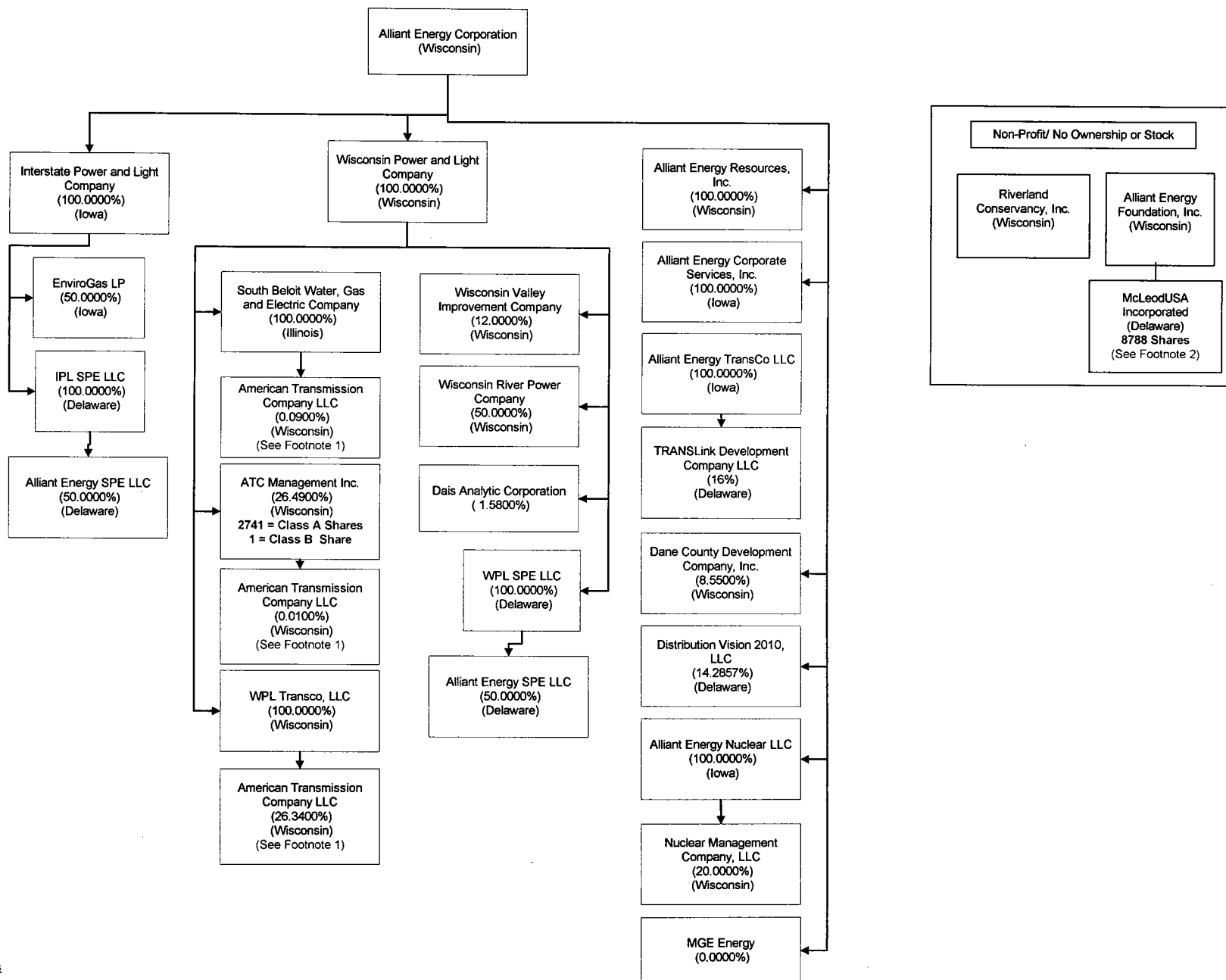
Proposed Legislation

Act 9 modified the asset cap limitation on nonutility investments of holding company systems, pursuant to Wis. Stat. § 196.795, to allow “eligible assets” to be excluded from the calculation of nonutility assets as a percentage of utility assets. Act 9 did not, however, modify sections 1 through 4 of Wis. Stat. § 196.795(7)(a), defining appropriate nonutility investments. An ambiguity therefore exists between what is allowable under the definition of appropriate nonutility investments and the types of investments that qualify for inclusion under the category of “eligible assets.” Not all “eligible assets” will meet at least one of the four criteria of Wis. Stat. § 196.795(7). For instance, investments in assets that process waste material, or provide telecommunication service (as defined in s. 196.01 (9m)) are considered “eligible assets” but do not meet the criteria in Wis. Stat. § 196.795(7)(a).

If the nonutility investments of a public utility holding company do not, or cannot, reasonably be expected to meet one of the four criteria under Wis. Stat. § 196.795(7)(a), the holding company becomes subject to Wis. Stats. §§ 201.01(2) and 201.03(1) and the holding company is no longer exempt from the definition of a “public service corporation.” Therefore, by reference, Wis. Stats. § 201.01(2) is specifically tied to the criteria in Wis. Stat. § 196.795(7)(a). Since Act 9 did not change or eliminate this reference, investments in “eligible assets” that do not meet one of the four criteria in Wis. Stat. § 196.795(7)(a) have the potential of subjecting the holding company to security regulation by the Commission. As a result, the holding company may not be able to issue securities without Commission approval.

It appears that the only successful way to address the ambiguities is to pursue statutory change. An addition of “eligible assets” as the fifth criteria in Wis. Stat. § 196.795(7)(a), should solve the basic problem.

Subsidiaries of Alliant Energy Corporation
Effective Date: 12/31/2002
Created Date: 3/11/2003

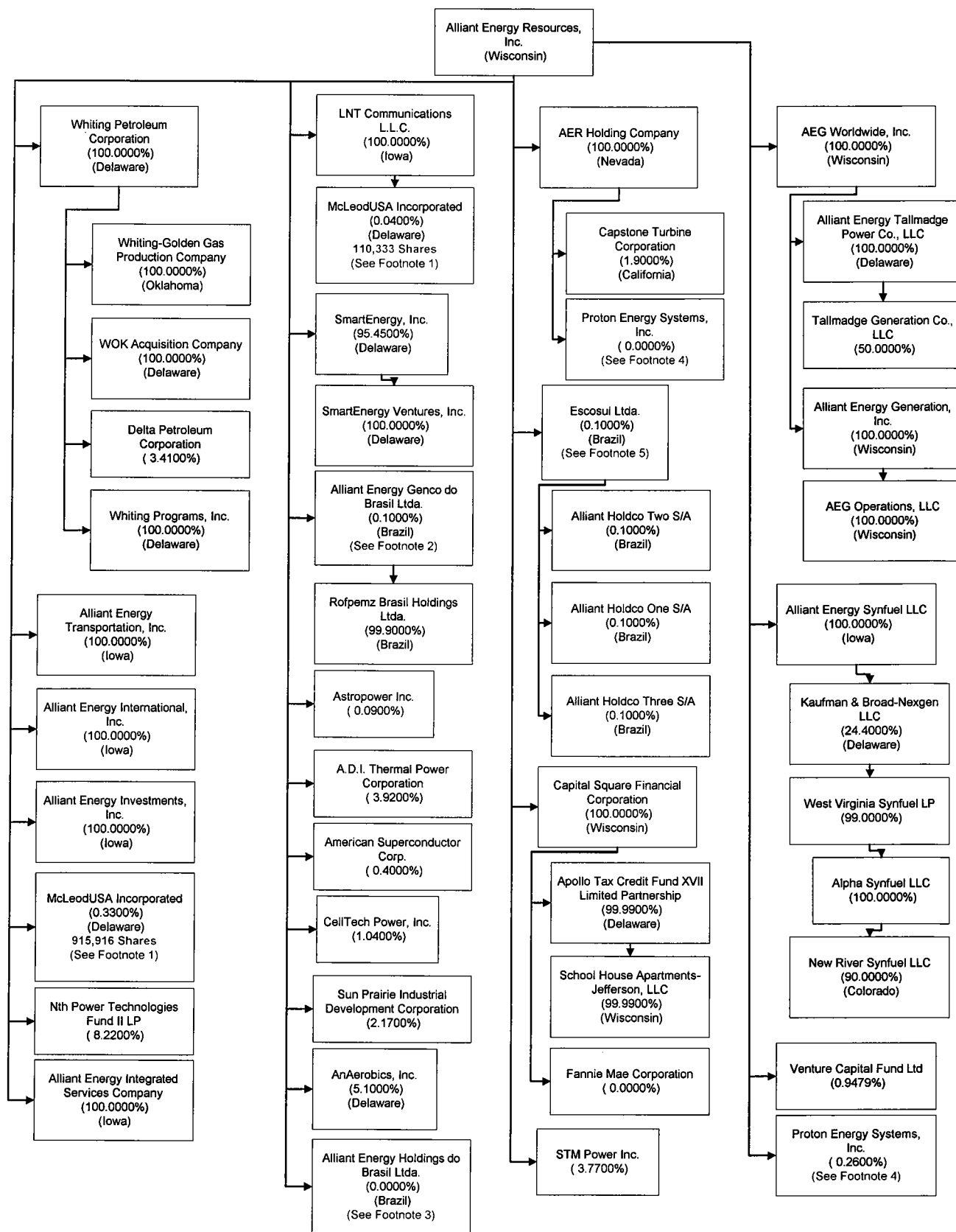


Footnotes

- 1) Also owned by WPL Transco LLC, ATC Management Inc, and South Beloit Water, Gas and Electric Co.
 2) Also owned by Alliant Energy Investments, LNT Communications, Alliant Energy Resources, and Heartland Properties Inc.

Subsidiaries of Alliant Energy Resources, Inc.
Effective Date: 12/31/2002
Created Date: 3/6/2003

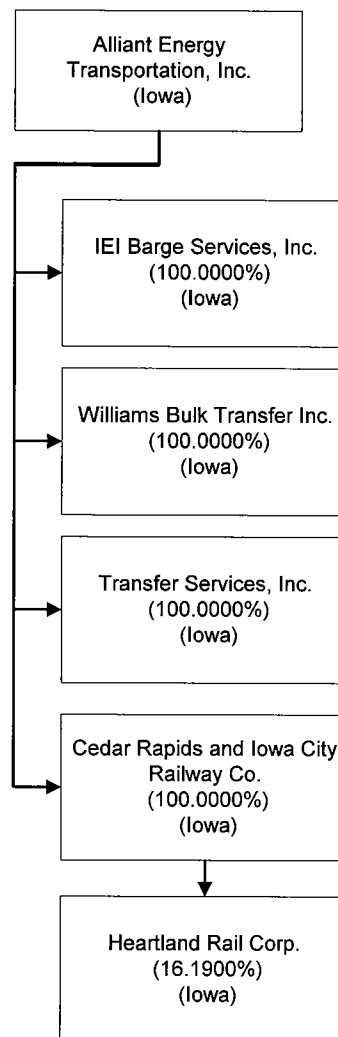
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Footnotes

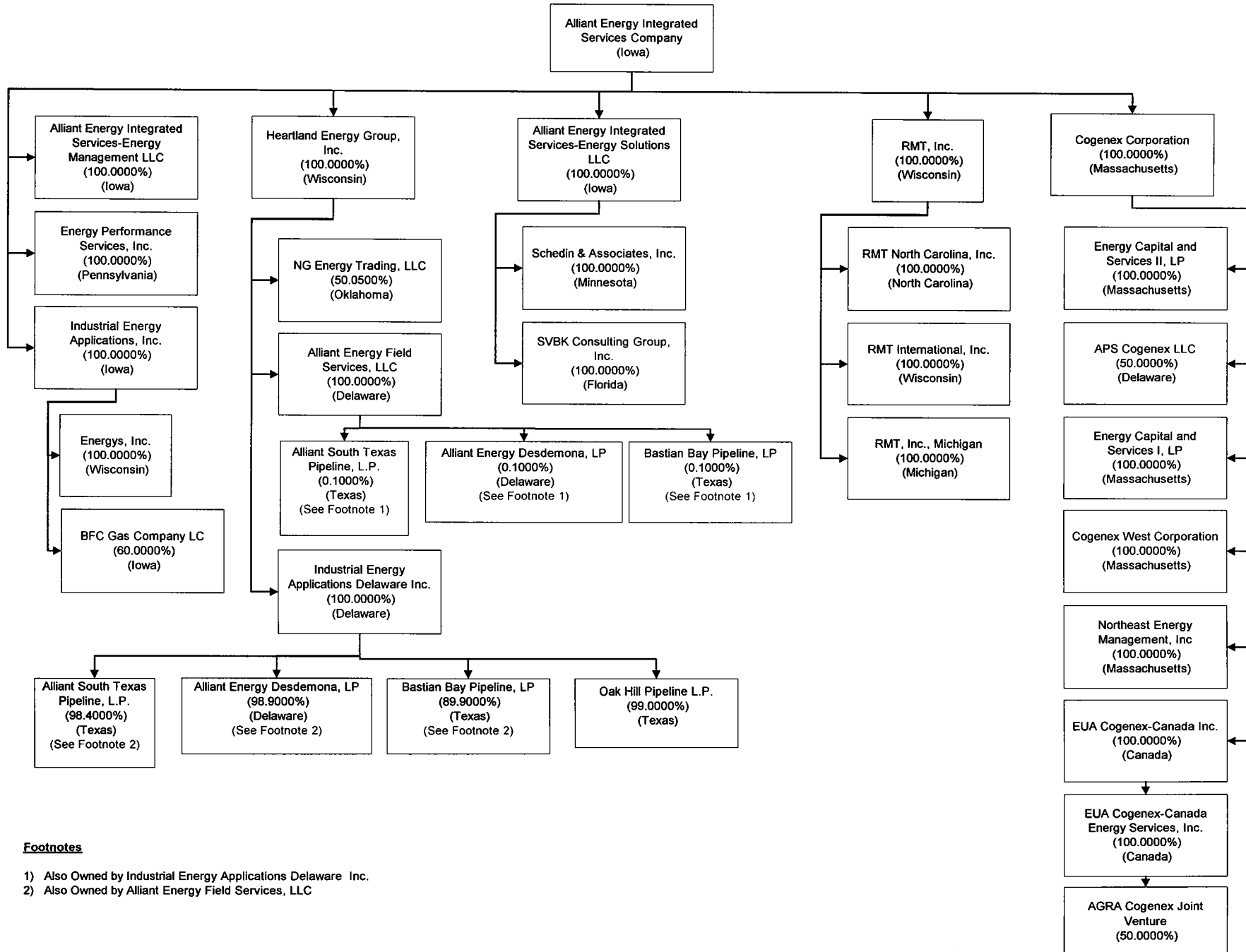
- 1) Also Owned by Alliant Energy Investments, Heartland Properties Inc., LNT Communications, Alliant Energy Resources and Alliant Energy Foundation
- 2) Also Owned by Alliant Energy International
- 3) Also Owend by Allinat Energy International and Grandelight Holding Limited
- 4) Also Owned by AER Holding Company and Alliant Energy Resources
- 5) Also Owend by Alliant Energy International

Subsidiaries of Alliant Energy Transportation, Inc.
Effective Date: 12/31/2002
Created Date: 2/25/2003



Subsidiaries of Alliant Energy Integrated Services Company
Effective Date: 12/31/2002
Created Date: 2/27/2003

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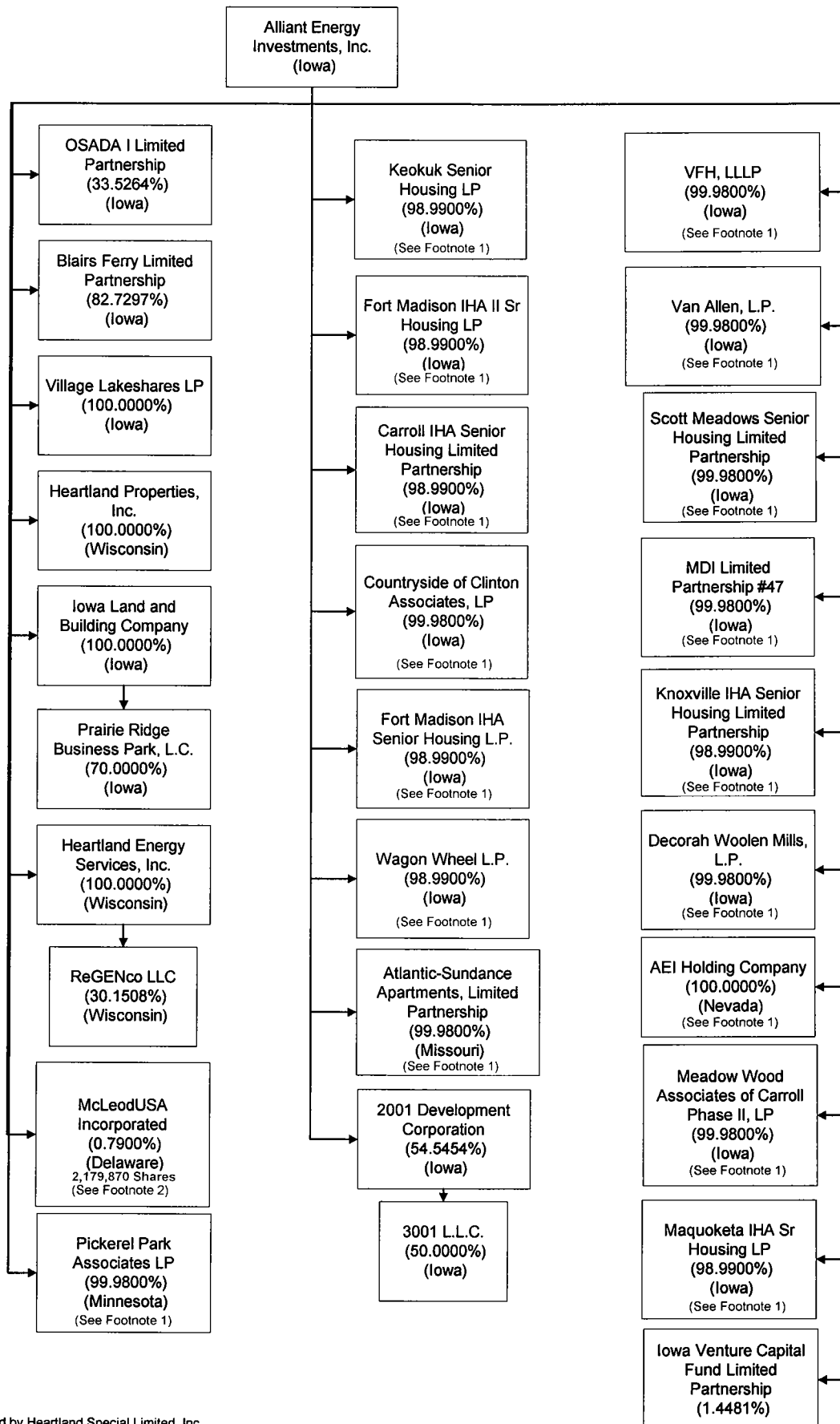


Footnotes

- 1) Also Owned by Industrial Energy Applications Delaware Inc.
 2) Also Owned by Alliant Energy Field Services, LLC

Subsidiaries of Alliant Energy Investments, Inc.
Effective Date: 12/31/2002
Created Date: 3/6/2003

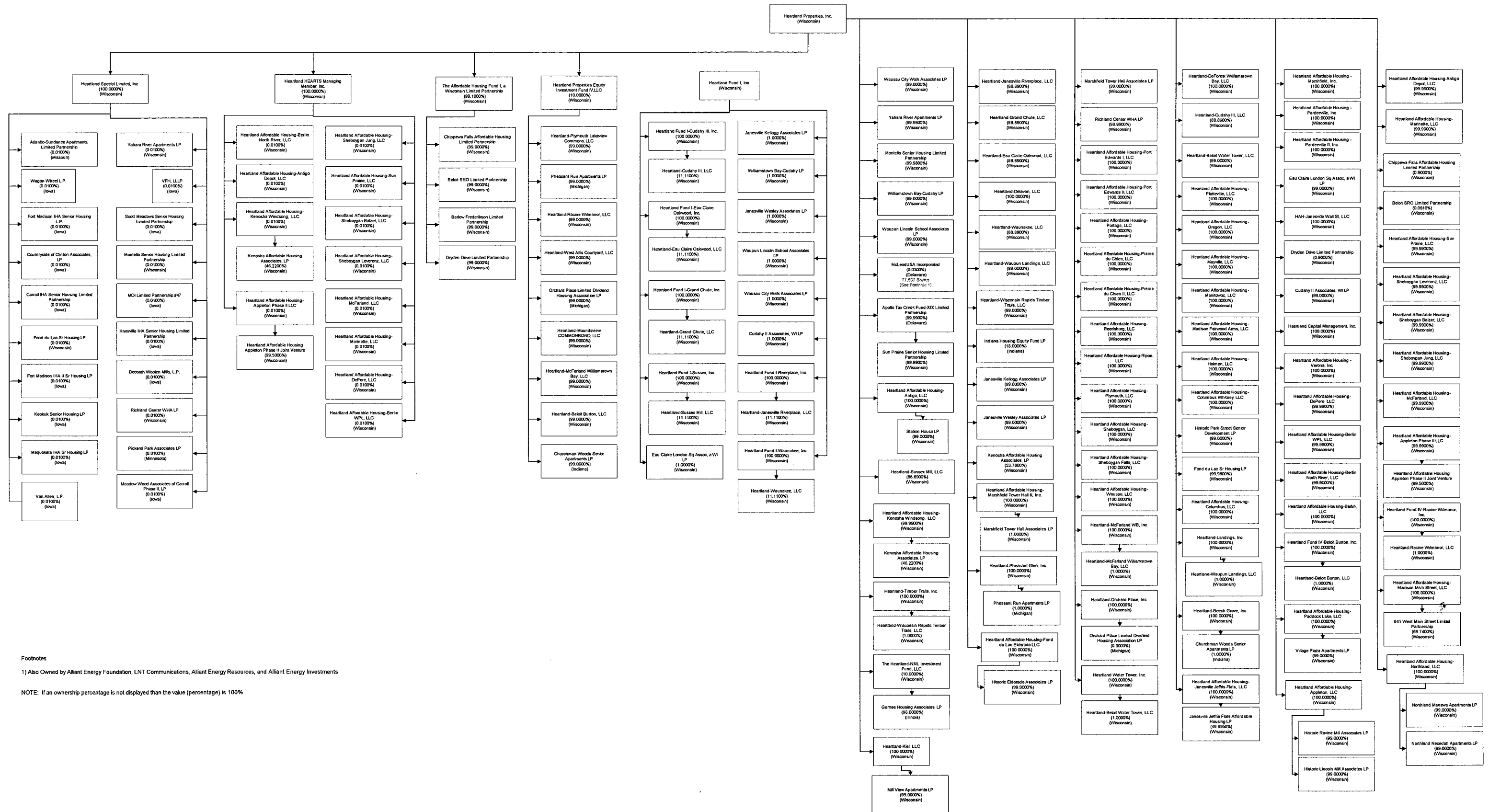
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Footnotes

- 1) Also Owned by Heartland Special Limited, Inc.
- 2) Also Owned by Alliant Energy Foundation, LNT Communications, Alliant Energy Resources and Heartland Properties Inc.

Subsidiaries of Heartland Properties, Inc.
Effective Date: 12/31/2002
Created Date: 3/19/2003

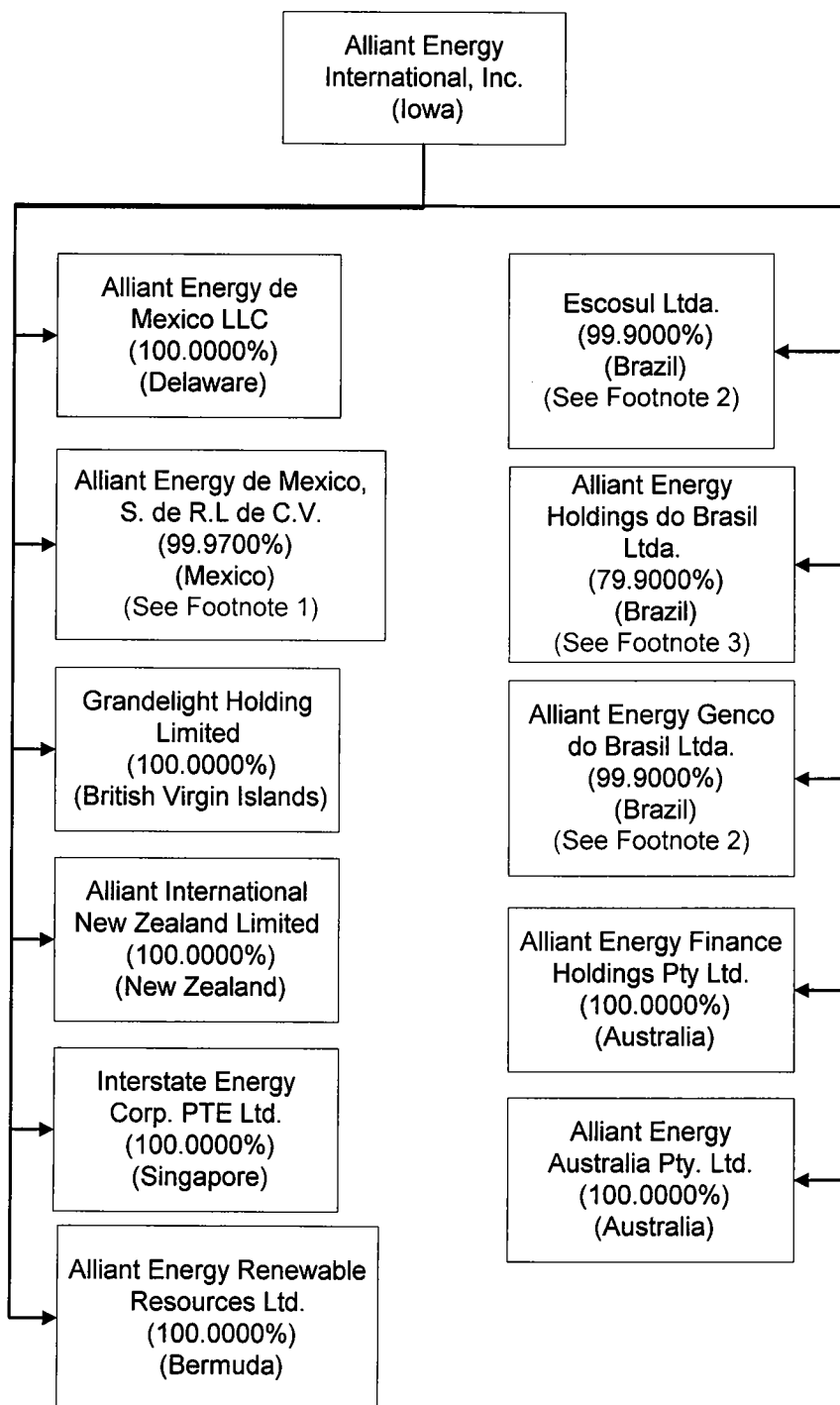


Footnotes

1) Also Owned by Alliant Energy Foundation, LNT Communications, Alliant Energy Resources, and Alliant Energy Investments

NOTE: If an ownership percentage is not displayed than the value (percentage) is 100%

Subsidiaries of Alliant Energy International, Inc.
Effective Date: 12/31/2002
Created Date: 2/26/2003

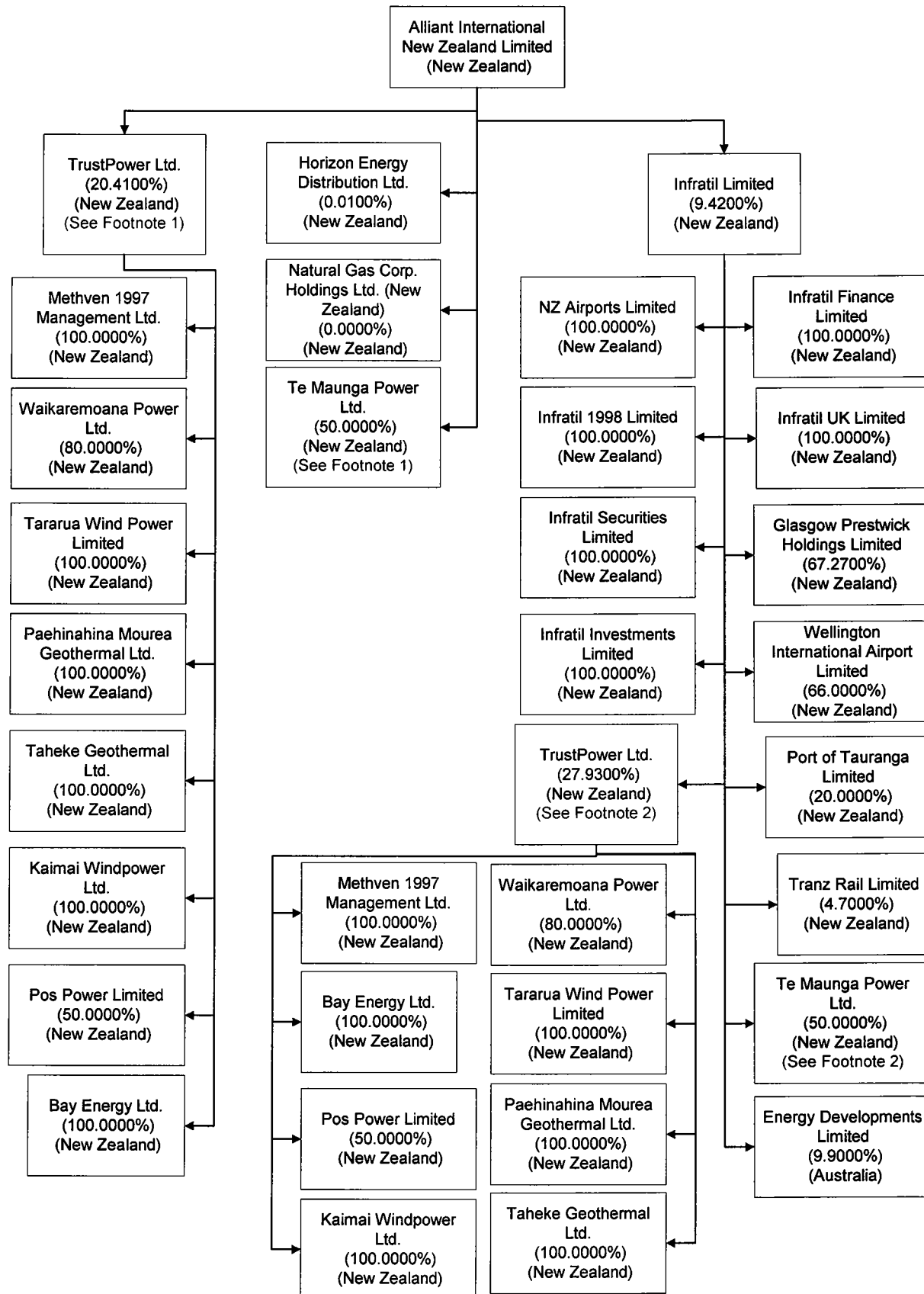


Footnotes

- 1) Also Owned by Alliant Energy de Mexico LLC
- 2) Also Owned by Alliant Energy Resources
- 3) Also Owned by Alliant Energy Resources and Grandelight Holding Limited

Subsidiaries of Alliant International New Zealand Limited
Effective Date: 12/31/2002
Created Date: 3/6/2003

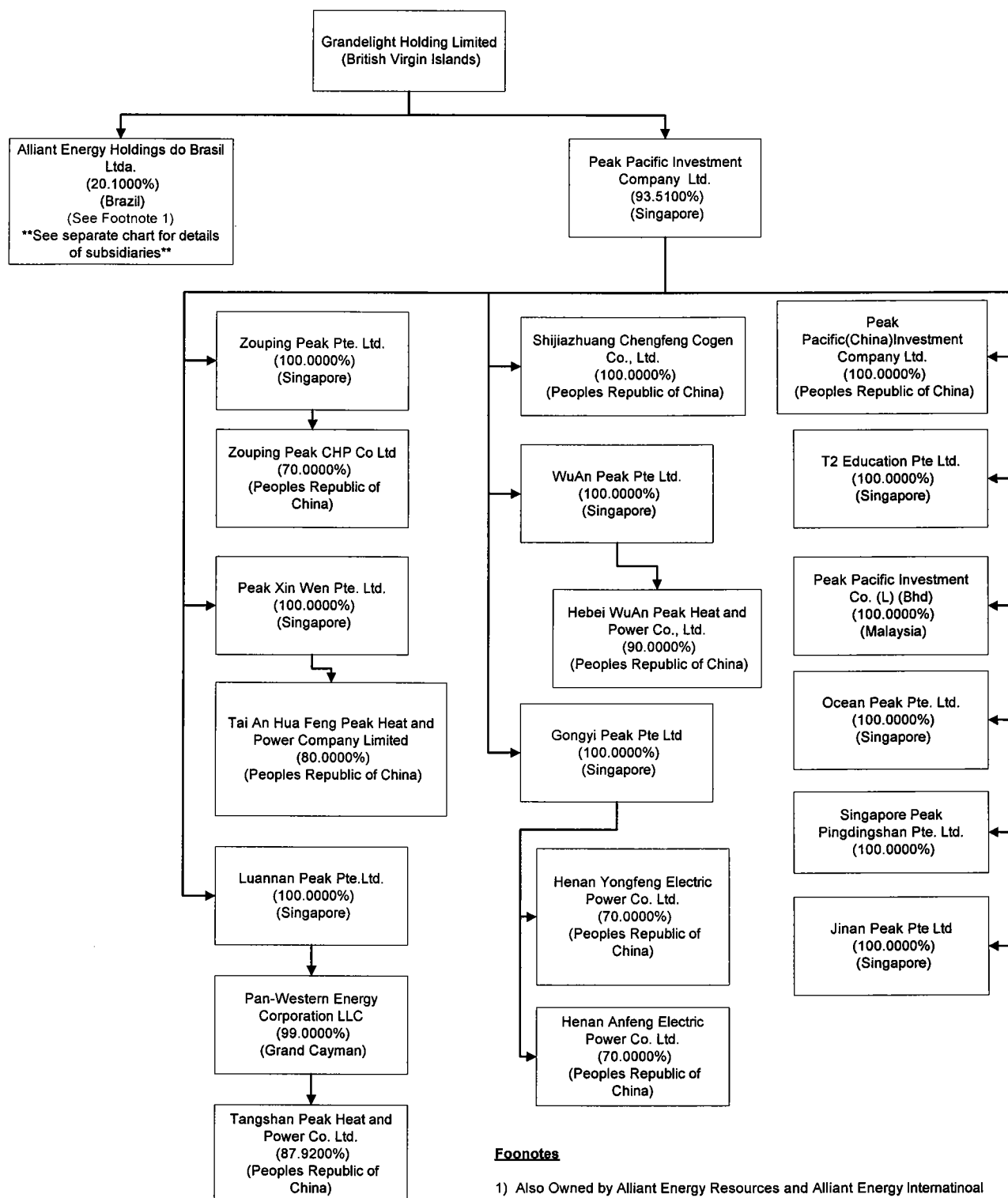
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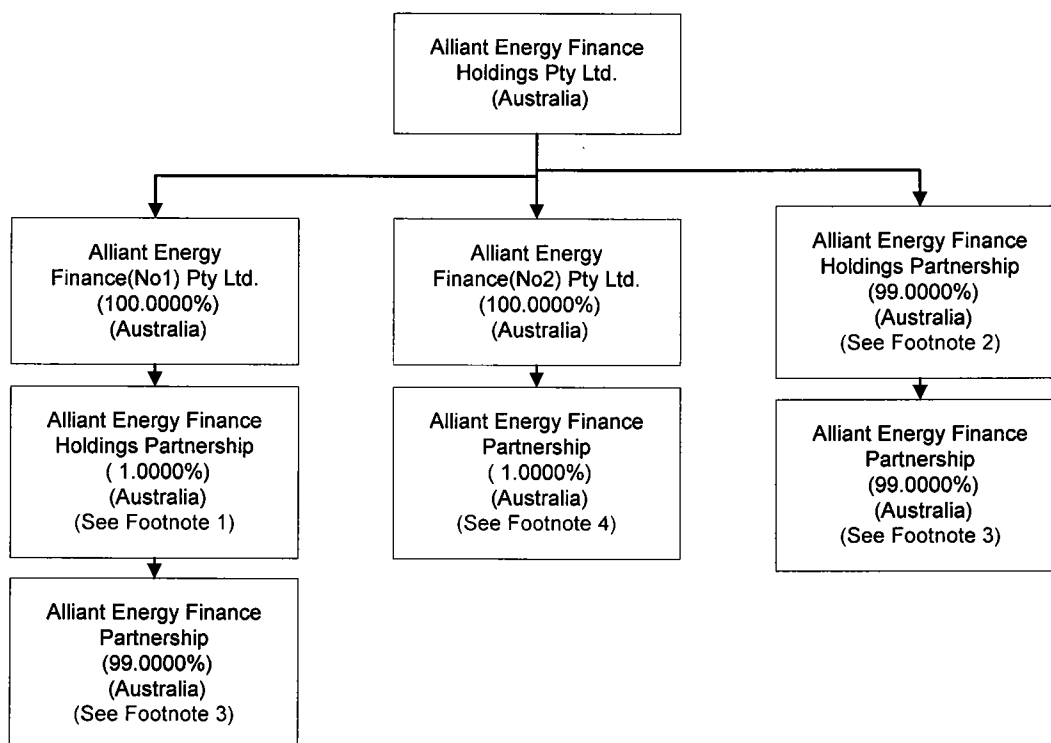
Footnotes

- 1) Also Owned by Infratil Limited
 2) Also Owned by Alliant International New Zealand Limited

Subsidiaries of Grandelight Holding Limited
Effective Date: 12/31/2002
Created Date: 3/6/2003



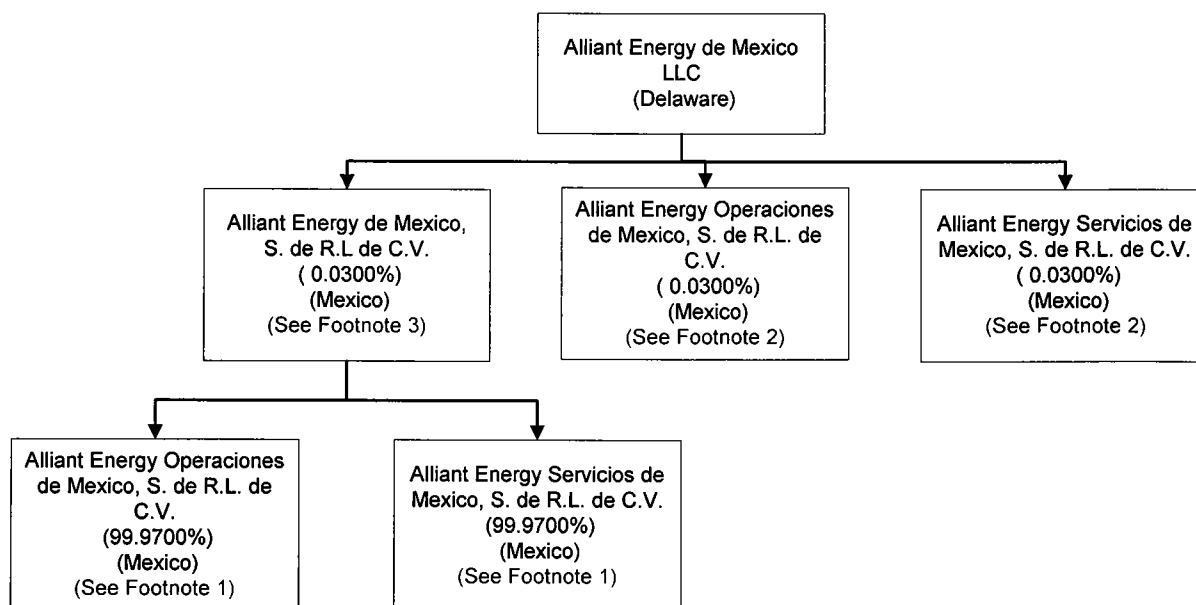
Subsidiaries of Alliant Energy Finance Holdings Pty Ltd.
Effective Date: 12/31/2002
Created Date: 2/25/2003



Footnotes

- 1) Also Owned by Alliant Energy Finance Holdings Pty Ltd
- 2) Also Owned by Alliant Energy Finance (No 1) Pty Ltd
- 3) Also Owned by Alliant Energy Finance (No 2) Pty Ltd
- 4) Also Owned by Alliant Energy Finance Holdings Partnership

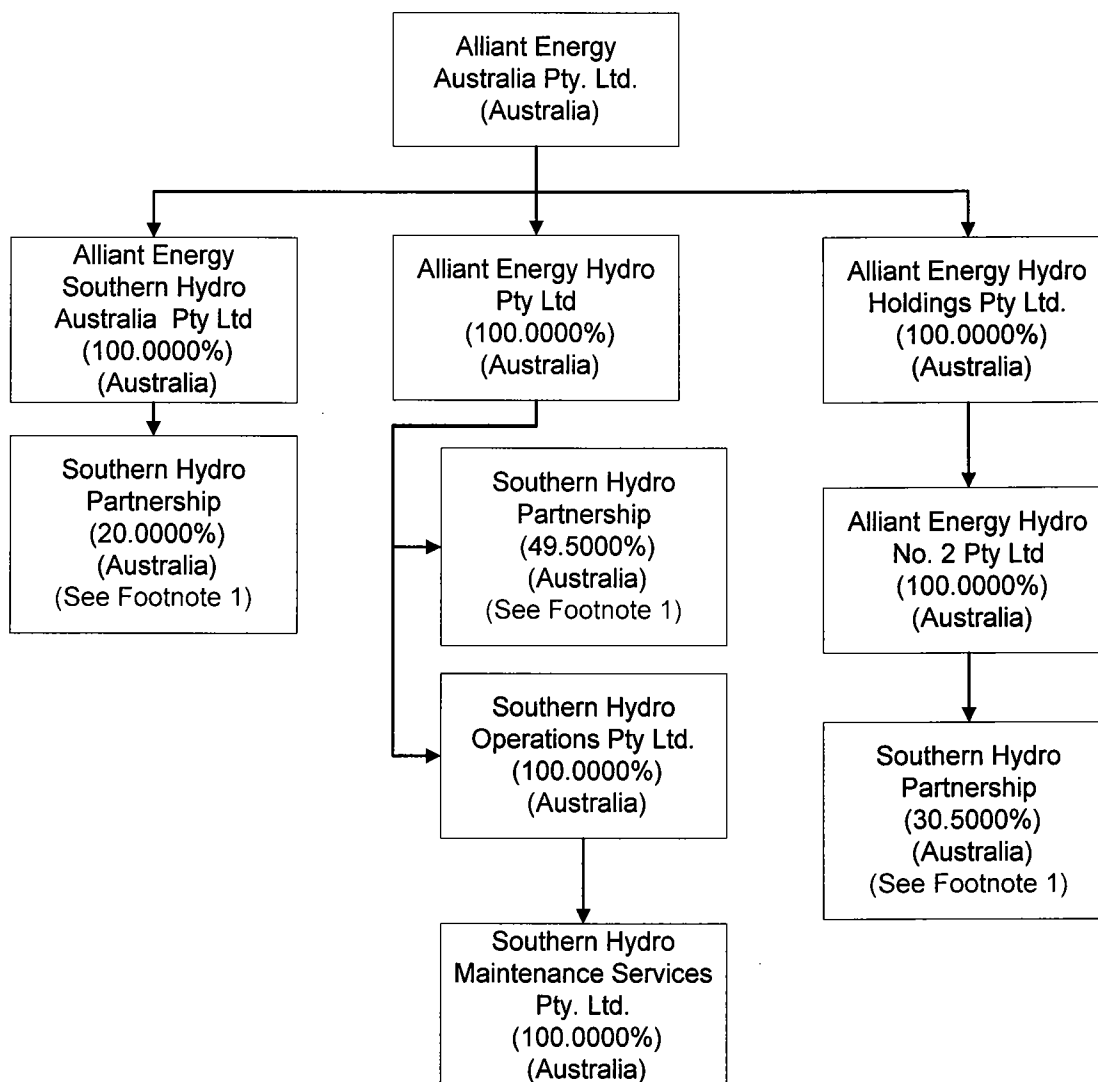
Subsidiaries of Alliant Energy de Mexico LLC
Effective Date: 12/31/2002
Created Date: 2/25/2003



Footnotes

- 1) Also Owned by Alliant Energy de Mexico LLC
- 2) Also Owned by Alliant Energy de Mexico, S de RL de CV
- 3) Also Owned by Alliant Energy International

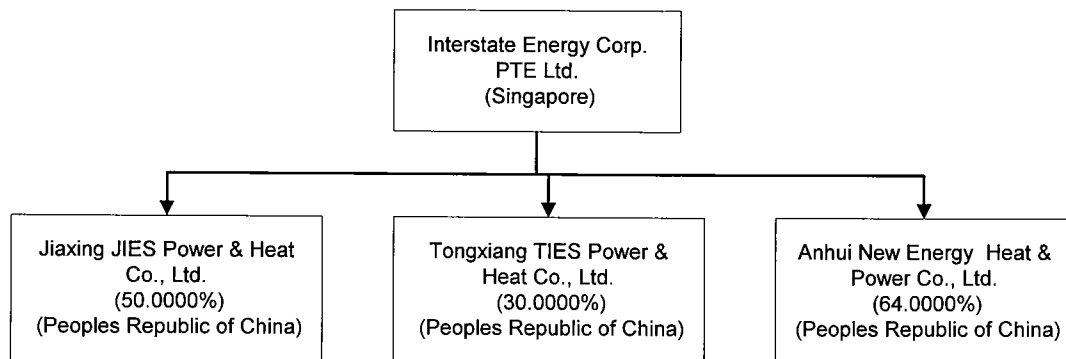
Subsidiaries of Alliant Energy Australia Pty. Ltd.
Effective Date: 12/31/2002
Created Date: 2/25/2003



Footnotes

1) Also Owned by Alliant Energy Southern Hydro Australia Pty Ltd, Alliant Energy Hydro Pty Ltd, and Alliant Energy Hydro No. 2 Pty Ltd

Subsidiaries of Interstate Energy Corp. PTE Ltd.
Effective Date: 12/31/2002
Created Date: 3/6/2003



Corporate Entities at 12/31/2002 – Compliance with Wis. Stat. § 196.795(7)(a)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
EnviroGas LP (50% owned by IES Utilities)	196.795 (7) (a)(3)
IES Ventures Inc. dissolved 11/30/99	196.795 (7) (a)(3)
IES Midland Development dissolved 11/30/99	196.795 (7) (a)(3)
IPC Development Co. dissolved 5/13/99	196.795 (7) (a)(3)
Wisconsin River Power Co. (33.33%)	196.795 (7) (a)(3)
Wisconsin Valley Improvement Co. (12%)	196.795 (7) (a)(1)
Alliant Energy Corporate Services, Inc. (FKA Alliant Services, Inc.)	196.795 (7) (a)(1)
Alliant Energy Resources, Inc. FKA Alliant Industries, Inc., FKA Heartland Development Corp., & IES Diversified, Inc.	196.795 (7) (a)(1)
Capital Square Financial Corp.	196.795 (7) (a)(1)
Heartland Properties, Inc.	196.795 (7) (a)(4)
WPLH CT LLC (83.3% owned by Heartland Properties, Inc.); (16.7% owned by Heartland Energy Services)	196.795 (7) (a)(3)
Cargill-Alliant LLC dissolved 8/31/02	196.795 (7) (a)(3)
Alliant Energy Industrial Services, Inc. (FKA IES Energy Inc.) dissolved 1/1/01	196.795 (7) (a)(1)
Whiting Petroleum Corp.	196.795 (7) (a)(3)
Whiting Programs	196.795 (7) (a)(3)
WOK Acquisitions	196.795 (7) (a)(3)
WAH Royalty Company dissolved 7/21/00	196.795 (7) (a)(3)
Whiting-Golden Gas Production Company (FKA Golden Gas Production Company)	196.795 (7) (a)(3)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Ely Inc. dissolved 10/31/00	196.795 (7) (a)(3)
Industrial Energy Applications, Inc.	196.795 (7) (a)(3)
IEA-HES LLC (50% owned by Industrial Energy Applications, Inc.; 50% owned by Heartland Energy Group) dissolved 12/31/99	196.795 (7) (a)(3)
BFC Gas Co LLC (60%)	196.795 (7) (a)(3)
Energy's Inc. (FKA Enserv, Inc.)	196.795 (7) (a)(1)
Industrial Energy Applications Delaware, Inc.	196.795 (7) (a)(1)
Oak Hill Pipeline LP (99%)	196.795 (7) (a)(3)
Schedin & Associates, Inc.	196.795 (7) (a)(1)
Heartland Energy Services, Inc.	196.795 (7) (a)(1)
Heartland Energy Group	196.795 (7) (a)(1)
RMT, Inc.	196.795 (7) (a)(1)
Marshfield Tower Hall Apts. LP (99%)	196.795 (7) (a)(1)
Residuals Management Technology, Inc. Ohio (48%) merged into RMT Inc 10/1/02	196.795 (7) (a)(3)
RMT, Inc., North Carolina Inc.	196.795 (7) (a)(3)
RMT of Michigan, Inc.	196.795 (7) (a)(3)
RMT International Inc. (U.S. Company)	196.795 (7) (a)(3)
RMT Consulting Engineers, P.C. (Zero % RMT owned; owned by key RMT Employees)	196.795 (7) (a)(3)
Alliant Energy Transportation, Inc. FKA IES Transportation Inc.	196.795 (7) (a)(3)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
IEI Barge Services, Inc.	196.795 (7) (a)(3)
Transfer Services, Inc. FKA IES Transfer Services Inc.	196.795 (7) (a)(3)
CRANDIC (Cedar Rapids and Iowa City Railway Company)	196.795 (7) (a)(3)
Heartland Rail Corp. 17.5%	196.795 (7) (a)(3)
Alliant Energy Investments, Inc. (FKA IES Investments Inc.)	196.795 (7) (a)(1)
Village Lakeshares LP (32.88%)	196.795 (7) (a)(1)
Prairie Ridge Business Park, LP (70%)	196.795 (7) (a)(4)
Center Place Limited Partnership (28.6%) dissolved 12/31/01	196.795 (7) (a)(4)
Blairs Ferry Limited Partnership (MAHP 89.2%)	196.795 (7) (a)(4)
OSADA I Limited Partnership 9MAHP 81.8%)	196.795 (7) (a)(4)
Atlantic Sundance Apartments L.P.	196.795 (7) (a)(1)
Village Lakeshares Inc. dissolved 4/1/01	196.795 (7) (a)(1)
Village Lakeshares LP (67.1187%)	196.795 (7) (a)(1)
Iowa Land and Building	196.795 (7) (a)(3)
Sawyer Finance Ltd. (New Zealand Co.) dissolved 10/31/99	196.795 (7) (a)(3)
Alliant Energy Investco, Inc. (FKA IES Investco Inc.) dissolved 8/18/00	196.795 (7) (a)(1)
2001 Development Corp.. (54.55%)	196.795 (7) (a)(4)
2060 Partnership LP 80% dissolved 9/30/01	196.795 (7) (a)(4)
Center Place Limited Prtnrs. (35.7%)	196.795 (7) (a)(4)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
3001 LLC (50%)	196.795 (7) (a)(4)
2002 Devel. Corp. dissolved 12/15/00	196.795 (7) (a)(4)
Alliant Energy International, Inc. (FKA IES International Inc.)	196.795 (7) (a)(3)
Alliant Energy de Mexico LLC (Delaware)	196.795 (7) (a)(3)
Interstate Energy Corp. PTE LTD (Singapore)	196.795 (7) (a)(3)
Jies Power & Heat Co. Ltd (50%)	196.795 (7) (a)(3)
Tongxiang TIES Heat & Power Co. LTD (50%)	196.795 (7) (a)(3)
Alliant Energy Brazil, Inc. (FKA IES Brazil Inc.) (Iowa) dissolved 4/3/00	196.795 (7) (a)(3)
Alliant do Brasil Ltda (FKA Brasil West Energy LTDA)	196.795 (7) (a)(3)
Centelha do Oeste Limitada (20%) (Brazil) (Owned by AE Brazil) (80%) (Brazil) (Owned by AE International)	196.795 (7) (a)(3)
Alliant International New Zealand Limited	196.795 (7) (a)(3)
Grandelight Holding Ltd. (BVI)	196.795 (7) (a)(3)
Peak Pacific Investment Company Pte Ltd (65%) (Singapore) (parent of 57, 68, 59, & 60)	196.795 (7) (a)(3)
Shijiazhuang Chengfeng Heat & Power Co. Ltd (70%) (China CJV)	196.795 (7) (a)(3)
Jinan Yaqing Heat and Power Co., Ltd. (66.5%)(China CJV) dissolved 6/25/01	196.795 (7) (a)(3)
Handan Chengfeng Heat and Power Co. Ltd. (75%) (China CJV)	196.795 (7) (a)(3)
Peak Pacific Investment Company (L) (bhd) (100% Malaysia)	196.795 (7) (a)(3)
Alliant Energy de Mexico, S. de R.L. de C.V. (99.99% Mexico); (.01% Delaware)	196.795 (7) (a)(3)
Alliant Energy Operaciones de Mexico (99.99% Mexico); (.01% Delaware)	196.795 (7) (a)(3)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Alliant Energy Services de Mexico (99.99% Mexico) (.01% Delaware)	196.795 (7) (a)(3)
LDM Utility	196.795 (7) (a)(3)
Williams Bulk Transfer, Inc.	196.795 (7) (a)(3)
South Texas Pipeline, L.P.	196.795 (7) (a)(3)
Alliant Energy Foundation Inc. (FKA Wisconsin Power and Light Foundation, Inc.	196.795 (7) (a)(1)
Sunrise Cove Time-Share Association dissolved 8/2/00	196.795 (7) (a)(1)
Wisconsin Power and Light Land Stewardship Trust, Inc.	196.795 (7) (a)(3)
641 West Main Street Limited Partnership	196.795 (7) (a)(1)
AEI Holding Company	196.795 (7) (a)(3)
AER Holding Company	196.795 (7) (a)(3)
AGRA Cogenex Joint Venture	196.795 (7) (a)(1)
Alliant Energy Australia Pty. Ltd.	196.795 (7) (a)(3)
Alliant Energy Corporation	196.795 (7) (a)(3)
Alliant Energy Desdemona, LP	196.795 (7) (a)(3)
Alliant Energy Field Services, LLC	196.795 (7) (a)(3)
Alliant Energy Finance Holdings Partnership	196.795 (7) (a)(3)
Alliant Energy Finance Holdings Pty Ltd.	196.795 (7) (a)(3)
Alliant Energy Finance Partnership	196.795 (7) (a)(3)
Alliant Energy Finance(No1) Pty Ltd.	196.795 (7) (a)(3)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Alliant Energy Finance(No2) Pty Ltd.	196.795 (7) (a)(3)
Alliant Energy Genco do Brasil Ltda. dissolved 12/31/02	196.795 (7) (a)(3)
Alliant Energy Generation, Inc. Changed its name to AEG Worldwide, Inc 12/19/2002	196.795 (7) (a)(3)
Alliant Energy Holdings do Brasil Ltda.	196.795 (7) (a)(3)
Alliant Energy Hydro Pty Ltd	196.795 (7) (a)(3)
Alliant Energy Integrated Services Company	196.795 (7) (a)(3)
Alliant Energy Integrated Services-Energy Management LLC	196.795 (7) (a)(3)
Alliant Energy Integrated Services-Energy Solutions LLC	196.795 (7) (a)(3)
Alliant Energy Nuclear LLC	196.795 (7) (a)(3)
Alliant Energy Renewable Resources Ltd.	196.795 (7) (a)(2)
Alliant Energy Southern Hydro Australia Pty Ltd	196.795 (7) (a)(3)
Alliant Energy SPE LLC	196.795 (7) (a)(3)
Alliant Energy Tallmadge Power Co., LLC	196.795 (7) (a)(3)
Alliant South Texas Pipeline, L.P.	196.795 (7) (a)(3)
American Transmission Company LLC	196.795 (7) (a)(3)
Anhui New Energy & Power	196.795 (7) (a)(3)
Apollo Tax Credit Fund XVII Limited Partnership	196.795 (7) (a)(3)
APS Cogenex LLC	196.795 (7) (a)(2)
ATC Management Inc.	196.795 (7) (a)(3)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Barlow Frederikson Limited Partnership	196.795 (7) (a)(1)
Bastian Bay Pipeline, LP	196.795 (7) (a)(3)
Bay Energy Ltd.	196.795 (7) (a)(3)
Beloit SRO Limited Partnership	196.795 (7) (a)(1)
Capstone Turbine Corporation	196.795 (7) (a)(3)
Cargill-Alliant Energy Canada, Inc. dissolved 8/31/02	196.795 (7) (a)(3)
Cargill-Alliant Energy Canada, LP dissolved 8/31/02	196.795 (7) (a)(3)
Carroll IHA Senior Housing Limited Partnership	196.795 (7) (a)(1)
Cat-Leo Energia S.A.	196.795 (7) (a)(3)
Chippewa Falls Affordable Housing Limited Partnership	196.795 (7) (a)(1)
Churchman Woods Senior Apartments LP	196.795 (7) (a)(1)
Cogenex Corporation	196.795 (7) (a)(2)
Cogenex West Corporation	196.795 (7) (a)(2)
Companhia de Electricidad de Nova Friburgo	196.795 (7) (a)(3)
Companhia Energetica da Borborema	196.795 (7) (a)(3)
Companhia Forca e Luz Cataguazes-Leopoldina S.A.	196.795 (7) (a)(3)
Cornerstone Investments, LLC	196.795 (7) (a)(1)
Countryside of Clinton Associates, LP	196.795 (7) (a)(1)
Cudahy II Associates, WI LP	196.795 (7) (a)(1)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Dryden Drive Limited Partnership	196.795 (7) (a)(1)
Eau Claire London Sq Assoc, a WI LP	196.795 (7) (a)(4)
Empresa Energetica de Sergipe S.A.	196.795 (7) (a)(3)
Energisa S. A.	196.795 (7) (a)(3)
Energisa Telecom Ltda.	196.795 (7) (a)(3)
Energy Capital and Services I, LP	196.795 (7) (a)(3)
Energy Capital and Services II, LP	196.795 (7) (a)(3)
Energy Performance Services, Inc.	196.795 (7) (a)(2)
Enermetrix.com, Inc. dissolved 4/10/02	
Escosul Ltda.	196.795 (7) (a)(3)
EUA Cogenex-Canada Energy Services, Inc.	196.795 (7) (a)(3)
EUA Cogenex-Canada Inc.	196.795 (7) (a)(2)
Heartland Fund I-Eau Claire Oakwood, Inc.	196.795 (7) (a)(1)
Heartland Fund I-Grand Chute, Inc.	196.795 (7) (a)(1)
Heartland Fund I-Riverplace, Inc.	196.795 (7) (a)(1)
Heartland Fund I-Sussex, Inc.	196.795 (7) (a)(1)
Heartland Fund I-Waunakee, Inc.	196.795 (7) (a)(1)
Heartland Fund IV-Beloit Burton, Inc.	196.795 (7) (a)(1)
Heartland Fund IV-Racine Wilmanor, Inc.	196.795 (7) (a)(1)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Heartland HEARTS Managing Member, Inc.	196.795 (7) (a)(1)
Heartland Properties Equity Investment Fund IV,LLC	196.795 (7) (a)(1)
Heartland Properties Equity Investment Fund VII, LLC dissolved 1/2/02	196.795 (7) (a)(1)
Heartland Special Limited, Inc.	196.795 (7) (a)(1)
Heartland Water Tower, Inc.	196.795 (7) (a)(1)
Heartland-Beech Grove, Inc.	196.795 (7) (a)(1)
Heartland-Beloit Burton, LLC	196.795 (7) (a)(1)
Heartland-Beloit Water Tower, LLC	196.795 (7) (a)(1)
Heartland-Cudahy III, LLC	196.795 (7) (a)(1)
Heartland-DeForest Williamstown Bay, LLC	196.795 (7) (a)(1)
Heartland-Delavan, LLC	196.795 (7) (a)(1)
Heartland-Eau Claire Oakwood, LLC	196.795 (7) (a)(1)
Heartland-Grand Chute, LLC	196.795 (7) (a)(1)
Heartland-Janesville Riverplace, LLC	196.795 (7) (a)(1)
Heartland-Kiel, LLC	196.795 (7) (a)(1)
Heartland-Landings, Inc.	196.795 (7) (a)(1)
Heartland-McFarland WB, Inc.	196.795 (7) (a)(1)
Heartland-McFarland Williamstown Bay, LLC	196.795 (7) (a)(1)
Heartland-Moundsview COMMONBOND, LLC	196.795 (7) (a)(1)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Heartland-Orchard Place, Inc.	196.795 (7) (a)(1)
Heartland-Pheasant Glen, Inc.	196.795 (7) (a)(1)
Heartland-Plymouth Lakeview Commons, LLC	196.795 (7) (a)(1)
Heartland-Racine Wilmanor, LLC	196.795 (7) (a)(1)
Heartland-Sussex Mill, LLC	196.795 (7) (a)(1)
Heartland-Timber Trails, Inc.	196.795 (7) (a)(1)
Heartland-Waunakee, LLC	196.795 (7) (a)(1)
Heartland-Waupun Landings, LLC	196.795 (7) (a)(1)
Heartland-West Allis Courtyard, LLC	196.795 (7) (a)(1)
Heartland-Wisconsin Rapids Timber Trails, LLC	196.795 (7) (a)(1)
Hebei WuAn Peak Heat and Power Co., Ltd.	196.795 (7) (a)(3)
Henan Anfeng Electric Power Co. Ltd.	196.795 (7) (a)(3)
Henan Yongfeng Electric Power Co. Ltd.	196.795 (7) (a)(3)
Henwood Energy Services, Inc. dissolved 10/17/02	196.795 (7) (a)(3)
Historic Eldorado Associates LP	196.795 (7) (a)(1)
Historic Lincoln Mill Associates LP	196.795 (7) (a)(1)
Historic Park Street Senior Development LP	196.795 (7) (a)(1)
Historic Ravine Mill Associates LP	196.795 (7) (a)(1)
IESU SPE LLC changed name to IPL SPE LLC 8/1/2002	196.795 (7) (a)(3)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Indiana Housing Equity Fund LP	196.795 (7) (a)(1)
Infratil Limited	196.795 (7) (a)(3)
Interstate Power and Light Company f/k/a IES Utilities, Inc.	196.795 (7) (a)(3)
IPC SPE LLC dissolved 8/1/02	196.795 (7) (a)(3)
Janesville Jeffris Flats Affordable Housing LP	196.795 (7) (a)(1)
Janesville Kellogg Associates LP	196.795 (7) (a)(1)
Janesville Wesley Associates LP	196.795 (7) (a)(1)
Jinan Peak Pte Ltd	196.795 (7) (a)(3)
Kaimai Windpower Ltd.	196.795 (7) (a)(3)
Kenosha Affordable Housing Associates, LP	196.795 (7) (a)(1)
Keokuk Senior Housing LP	196.795 (7) (a)(1)
Lakes Development Corporation merged into WI River Power Co 12/31/02	196.795 (7) (a)(1)
LNT Communications L.L.C.	196.795(7)(a)(3)
Luannan Peak Fourth Heat & Power Company Ltd. dissolved 11/7/02	196.795 (7) (a)(3)
Luannan Peak Heat & Power Company Ltd. dissolved 11/07/02	196.795 (7) (a)(3)
Luannan Peak Pte.Ltd.	196.795 (7) (a)(3)
Luannan Peak Second Heat & Power Company Ltd. dissolved 11/07/02	196.795 (7) (a)(3)
Luannan Peak Third Heat & Power Company Ltd. dissolved 11/07/02	196.795 (7) (a)(3)
Maquoketa IHA Sr Housing LP	196.795 (7) (a)(1)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Marshfield Tower Hall Associates LP	196.795 (7) (a)(1)
MCL Cabo S/A	196.795(7)(a) (3)
McLeodUSA Incorporated	196.795(7)(a) (3)
Meadow Wood Associates of Carroll Phase II, LP	196.795 (7) (a)(1)
Mill View Apartments LP	196.795 (7) (a)(1)
Multiagro Ltda	196.795 (7) (a)(2)
Multipar S/A	196.795 (7) (a)(3)
Natural Gas Corp. Holdings Ltd. (New Zealand)	196.795 (7) (a)(3)
NG Energy Trading, LLC	196.795 (7) (a)(3)
NHS of Beloit	196.795 (7) (a)(1)
Northeast Energy Management, Inc	196.795 (7) (a)(2)
Northland Manawa Apartments LP	196.795 (7) (a)(1)
Northland Necedah Apartments LP	196.795 (7) (a)(1)
Nth Power	196.795 (7) (a)(3)
Nuclear Management Company, LLC	196.795 (7) (a)(3)
Ocean Peak Pte. Ltd.	196.795 (7) (a)(3)
Orchard Place Limited Dividend Housing Association LP	196.795 (7) (a)(1)
Paehinahina Mourea Geothermal Ltd.	196.795 (7) (a)(2)
Pbpart Ltda.	196.795 (7) (a)(3)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Pbpart-SE 1 Ltda.	196.795 (7) (a)(3)
Pbpart-SE 2 Ltda.	196.795 (7) (a)(3)
Pan-Western Energy Corporation LLC changed name from Peak Energy Development Corporation LLC on 1/31/2002	196.795 (7) (a)(3)
Pheasant Run Apartments LP	196.795 (7) (a)(1)
Pickerel Park Associates LP	196.795 (7) (a)(1)
Pos Power Limited	196.795 (7) (a)(3)
ReGENco LLC	196.795 (7) (a)(3)
Renewable Energy and Energy Efficiency Fund for Emerging Markets, Ltd. dissolved 10/18/02	196.795 (7) (a)(3)
Richland Center WHA LP	196.795 (7) (a)(1)
RiverLand Conservancy, Inc.	196.795 (7) (a)(1)
Rofpemz Brasil Holdings Ltda. dissolve 12/31/02	196.795 (7) (a)(3)
SmartEnergy, Inc.	196.795 (7) (a)(3)
Sociedade Anônima de Eletrificação da Paraíba	196.795 (7) (a)(3)
South Beloit Water, Gas & Electric Company	196.795 (7) (a)(3)
Southern Hydro Maintenance Co.	196.795 (7) (a)(3)
Southern Hydro Operations Pty Ltd.	196.795 (7) (a)(3)
Southern Hydro Partnership	196.795 (7) (a)(3)
Station House LP	196.795 (7) (a)(1)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
SVBK Consulting Group, Inc.	196.795 (7) (a)(2)
Taheke Geothermal Ltd.	196.795 (7) (a)(2)
Taratua Wind Power Limited	196.795 (7) (a)(2)
Te Maunga Power Ltd.	196.795 (7) (a)(3)
The Affordable Housing Fund I, a Wisconsin Limited Partnership	196.795 (7) (a)(1)
The Heartland-NML Investment Fund, LLC	196.795 (7) (a)(1)
Tranz Rail Ltd	196.795 (7) (a)(3)
TrustPower Ltd. (New Zealand)	196.795 (7) (a)(3)
United Networks Ltd. (New Zealand)	196.795 (7) (a)(3)
Village Plaza Apartments LP	196.795 (7) (a)(1)
Wagon Wheel L.P.	196.795 (7) (a)(1)
Waupun Lincoln School Associates LP	196.795 (7) (a)(4)
Wausau City Walk Associates LP	196.795 (7) (a)(4)
Weifang Ocean Peak Heat and Power Company Ltd dissolved 4/01/02	196.795 (7) (a)(3)
Williamstown Bay-Cudahy LP	196.795(7)(a)(4)
Wisconsin Power and Light Company	196.795(7)(a)(3)
WPL SPE LLC	196.795(7)(a)(3)
WPL Transco, LLC	196.795(7)(a)(3)
WuAn Peak Pte Ltd.	196.795(7)(a)(3)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
YMCA Housing Joint Venture dissolved 12/31/01	196.795(7)(a)(1)
YWCA Housing LP dissolved 12/31/01	196.795(7)(a)(1)
Zhengding Peak Pte Ltd. dissolved 12/31/01	196.795(7)(a) (3)
Zouping Peak CHP Co Ltd	196.795(7)(a)(3)
Zouping Peak Pte. Ltd.	196.795(7)(a)(3)
Glasgow Prestwick Holdings Limited - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795 (7) (a)(3)
Infratil 1998 Limited - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795 (7) (a) (3)
Infratil Finance Limited - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795 (7) (a) (3)
Infratil Investments Limited under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795 (7) (a) (3)
Infratil Securities Limited - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795 (7)(a) (3)
Infratil UK Limited - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795 (7)(a) (3)
Matahina Generation Ltd - under Trustpower, Trustpower reported 9/29/00 dissolved 12/31/01	196.795 (7)(a) (3)
NZ Airports - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795 (7)(a) (3)
Port of Tauranga Ltd - under Infratil, reported as Infrastructure & Utilities 6/17/01	196.795 (7)(a) (3)
Telecabo SA - under Cataguazes under Gipar - Gipar and Cataguazes reported 9/29/00	196.795 (7)(a) (3)
Teleserv SA - under Energisa SA, under Cataguazes, Energisa reported 9/28/00/ Cataguazes reported 9/29/00	196.795 (7)(a) (3)
Termo Sergipe SA- under Energisa SA, under Cataguazes, Energisa reported 9/28/00/ Cataguazes reported 9/29/00	196.795 (7)(a) (3)
Usina Termelétrica de Juiz de Fora S.A.- under Cataguazes, Cataguazes reported 9/29/00	196.795 (7)(a) (3)
Waikaremoana Power Ltd - under Trustpower, Trustpower reported 9/29/00	196.795 (7)(a) (3)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Wellington International Airport- under Infratil, reported under Usina as Infrastructure & Utilities 6/17/01	196.795 (7)(a) (3)
Alliant Energy Generation, Inc.	196.795 (7)(a) (3)
AEG Operations, LLC	196.795 (7)(a) (3)
Alliant Energy Neenah, LLC acquired Mirant Neenah, LLC on 1/31/03 and changed name on 2/10/2003	196.795 (7)(a) (3)
Singapore Peak Pingdingshan Pte Ltd	196.795 (7) (a) (3)
T2 Education Pte Ltd	196.795 (7) (a) (2)
AE Neenah Holdings, LLC	196.795 (7) (a) (1)
Alliant Energy Hydro Holdings Pty Ltd	196.795 (7) (a) (2)
Alliant Energy Hydro No. 2 Pty. Ltd.	196.795 (7) (a) (2)
Alliant Holdco One S/A	196.795 (7) (a) (3)
Alliant Holdco Two S/A	196.795 (7) (a) (3)
Alliant Holdco Three S/A	196.795 (7) (a) (3)
AnAerobics, Inc.	196.795 (7) (a) (2)
Cargill-Alliant Energy Canada, Inc. dissolved 8/31/02	196.795 (7) (a) (3)
Distribution Vision 2010, LLC	196.795 (7) (a) (3)
Energisapar S/A	196.795 (7) (a)(3)
Energy Developments Limited	196.795 (7) (a) (2)
Lincoln Ridge Limited Partnership	196.795 (7) (a) (4)
LNTI Holdings B.V.	196.795 (7)(a) (1)

ENTITIES	Type of Business per Wis. Stat. § 196.795(7)(a)
Peak Pacific(China)Investment Company Ltd.	196.795 (7)(a) (3)
Peak Xin Wen Pte. Ltd.	196.795 (7) (a)(3)
Summit House Associates, LP	
Tai An Hua Feng Peak Heat and Power Company Limited	196.795 (7)(a) (3)
Tangshan Peak Heat and Power Co. Ltd.	196.795 (7) (a) (3)
TRANSLink Development Company LLC	196.795 (7) (a) (3)
Van Allen, LP	196.795 (7) (a) (1)
Yahara River Apartments LP	196.795 (7) (a) (4)
Alliant Energy Synfuel LLC	196.795 (7) (a) (2)
Kaufman & Broad-NexGen LLC	196.795 (7) (a) (2)
West Virginia Synfuel LP	196.795 (7)(a) (2)
Alpha Synfuel LLC	196.795 (7) (a) (2)
New River Synfuel LLC	196.795 (7) (a) (2)
Alliant Energy TransCo LLC	196.795 (7) (a) (3)
Cargill-Alliant Energy Canada, LP	196.795 (7)(a) (3)
Interstate Power Company merged with and into IES Utilities 01/01/2002	196.795 (7) (a) (3)

Appendix C

ALLIANT ENERGY RESOURCES, INC. Total Assets & Employees December 31, 2002

	Total Assets	Assets in Wisconsin	Total Employees	Employees in Wisconsin
	(in thousands)			
Alliant Energy International, Inc.	1,009,637	-	3,135	-
Alliant Energy Investments, Inc.	668,527	163,004	24	22
Whiting Petroleum Corporation	452,286	-	107	-
Alliant Energy Integrated Services Company	270,489	34,583	647	216
Alliant Energy Transportation, Inc.	53,244	-	115	-
Alliant Energy Synfuel LLC (1)	29,745	-	-	-
SmartEnergy, Inc.	24,963	-	52	-
AER Holding Company	20,890	20,890	-	-
Capital Square Financial Corporation	11,846	11,846	2	2
AE Generation (1)	4,429	-	10	-
LNT Communications LLC	93	-	-	-
Alliant Energy Resources, Inc. Staff & Eliminations (2)	(285,709)	137,327	19	18
Consolidated Alliant Energy Resources, Inc.	<u>\$2,260,440</u>	<u>\$367,650</u>	<u>4,111</u>	<u>258</u>

(1) The following subsidiaries were added in 2002

(2) The December 31, 2002 elimination entries included an intercompany loan of approximately \$500 million between Alliant Energy Investments, Inc. and Alliant Energy International, Inc.

Appendix D

Financial Operating Parameters

1. Securities case order in docket 6680-SB-101 (January 30, 1986)

In this pre-holding company order relating to the issuance of securities, the Commission states: “It is fundamental to sound utility regulation that the capital structure of the utility must be adequate to support appropriate system maintenance and improvement without financial strain. In this context, and that of increased actual risk and the perception of increased risk by the financial community, the commission finds that public interest will be served by applicant’s achieving a utility capital structure containing no less than 50% equity for the present and near future.”²¹

The Commission also found that before WP&L funds non-utility ventures the Commission must first make sure that the utility maintains a healthy capital structure. In order to ensure the continued financial health of the utility, the public interest required that WP&L not fund non-utility ventures until the utility reached and maintained a 50 percent common equity ratio. An investment restriction was imposed that prohibited WP&L from using utility funds for non-utility investments until the company reached and maintained a 50 percent equity level. This restriction was later revised in docket 9403-YO-100.

2. Holding company formation order in docket 9403-YO-100 (April 30, 1987)

In this order the Commission found that the fundamental requirement for meeting the obligation to serve at reasonable cost is the continuing financial health of the utility. The Commission found that the following three elements of utility finance help to ensure that utilities are able to provide reliable, low cost service into the future:

1. a reasonable and balanced capital structure;
2. a dividend policy based on the utility's needs; and
3. a commitment to fund capital construction needed to provide reliable and safe utility service.²²

The Commission also reaffirmed its earlier findings that the appropriate common equity ratio for WP&L was at least 50 percent. The Commission further found it necessary for WP&L to maintain its investment in utility operations in order to remain a strong ongoing utility. In order to ensure that utility equity was not used to finance non-utility investment before the utility reached 50 percent equity, the Commission ordered that any dividends paid by WP&L to its parent must be passed through immediately to the stockholders of WPLH. Thus, in general, all dividends paid from WP&L to WPLH were to be passed through to the shareholders of WPLH. This restriction would end when WP&L’s equity ratio reached 50 percent.

²¹ Primarily pages 4 – 6, and 9 of the January 30, 1986, order in docket 6680-SB-101.

²² Primarily pages 5 – 13 of the April 30, 1987, order in docket 9403-YO-100.

3. Rate case order in docket 6680-UR-103 (October 13, 1988)

In this rate case docket, the Commission conducted an investigation of the appropriate capital structure for WP&L and determined that the appropriate range at that time was 45 to 50 percent equity. The projected average equity ratio for the test year ending July 31, 1989, was 49.52 percent. The Commission withdrew the dividend pass through requirement²³. However, the Commission restricted WP&L from paying any greater than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the test year (49.52 percent). For dividend restriction purposes, normal dividends have typically been interpreted as the amount reasonably forecasted to be paid in the test year and the equity ratio as a 13-month average.

4. Rate case order in docket 6680-UR-104 (November 9, 1989)

In this rate case for test year ending July 31, 1990, WP&L and Commission staff agreed that the utility common equity ratio should be increasing towards the 55 percent level to maintain interest coverage and financial health. Similarly, the Commission also determined that the percent of common equity in the utility capital should be increasing from the average test year level of 49.50 percent.²⁴

5. Rate case order in docket 6680-UR-107 (December 22, 1992)

The order in this rate case does not discuss the appropriate capital structure levels. The Commission, however, determined that a reasonable utility ratemaking capital structure for the test year ending July 31, 1993, was 49.53 percent and restricted WP&L from paying any greater than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the test year (49.53 percent).

6. Rate Case order in docket 6680-UR-108 (September 30, 1993)

For the test year ending July 31, 1994, the Commission determined that a reasonable utility ratemaking capital structure was 50.31 percent and restricted WP&L from paying any greater than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the test year (50.31 percent). The common equity ratio included a forecasted equity infusion by WPLH.

7. Rate case order in docket 6680-UR-109 (December 8, 1994)

For the test year ending December 31, 1995, the Commission determined that a reasonable utility ratemaking capital structure was 51.93 percent and restricted WP&L from paying any greater than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the test year (51.93 percent).

²³ Primarily pages 28 –31, 65, and 69-70 of the October 13, 1988, order.

²⁴ Primarily pages 16-18 of the November 9, 1989, order.

8. Rate case order in docket 6680-UR-110 (April 29, 1997)

For the test year ending December 31, 1997, the Commission determined that a reasonable utility ratemaking capital structure was 52.00 percent and restricted WP&L from paying any greater than normal dividends in cases where such payment would result in the utility common equity ratio falling below the average level forecasted in the test year (52.00 percent).²⁵

9. Alliant formation order in docket 6680-UM-100 (November 4, 1997)

In the merger order, the Commission did not reiterate its discussion in docket 9403-YO-100 regarding the three elements of utility finance that help to ensure that utilities are able to provide reliable, low cost service into the future. However, the Commission directed that certain requirements from that order be carried over and specifically applied to Alliant.²⁶ These requirements include: Order Point 29, requiring WP&L to maintain a balanced capital structure within a reasonable range to be established by the Commission; Order Point 30 requiring the directors of WP&L to set dividend policy based solely on the capital needs and financial health of the utility, without regard to the need for capital on the part of the holding company, other utility affiliates, or other nonutility affiliates in the holding company system; and Order Point 31 requiring WP&L to submit ten-year financial strategic plans.

10. Rate case order in docket 6680-UR-111 (September 13, 2002)

With the formation of Alliant, the Commission allowed a four-year rate freeze at existing rate levels, subject to certain adjustments. The first rate case after the merger was for the 2002 test year. The Commission determined that the appropriate range at that time was 46.5 to 53.0 percent equity, on a financial basis, and ordered WP&L not to pay dividends in excess of the dividend used in determining the test year average capital structure if WP&L's actual average common equity ratio, on a ratemaking basis, is or would fall below the test year authorized level (44.67 percent, regulatory).²⁷

The Commission also determined in that rate case that, the appropriate ratings level for WP&L is an "A"-rating; WP&L's off-balance sheet obligations, including the debt equivalent of accounts receivables sales, purchased power and operating leases should be included in the financial capital structure; and that Alliant should meet its commitment to infuse additional equity of \$260 million in 2002 and 2003. The Commission used WP&L's unaudited calculations of the debt equivalents for the off-balance sheet obligations associated with purchased power and operating leases and calculated an average equity ratio, on a financial basis, for the test year at 44.16 percent, below the equity range established.²⁸

11. Rate case order in docket 6680-UR-112 (April 4, 2003)

In this rate case for the test year ending December 31, 2003, the Commission determined that the appropriate range for WP&L was 47.5 to 54.0 percent equity, on a financial basis, and ordered WP&L not to pay dividends, including pass-through of subsidiary dividends, in excess of

²⁵ Primarily pages 33 – 34, 83 and 90 of the April 29, 1997, order.

²⁶ Primarily pages 35, 56, and 57 of the November 4, 1997, order in docket 6680-UM-100.

²⁷ Primarily pages 8 – 9, 35 - 37 and 72 of the September 13, 2002, Final Decision.

²⁸ In subsequent rate cases, the method of calculating the debt-equivalent would be questioned and revised.

\$70,580,000 if WP&L's actual average common equity ratio, on a ratemaking basis, is or would fall below the test year authorized level (51.72 percent). The Commission also determined in that rate case that the debt-equivalents of WP&L's off-balance sheet obligations associated with purchased power and operating leases should be based on a 60 percent factoring of the present value of the payments, and calculated the average equity ratio, on a financial basis for the test year at 47.46 percent, slightly below the equity range established. The Commission further determined that Alliant should meet its commitment to infuse additional equity of \$200 million within 90 days of the Final Decision.²⁹

12. Rate case order in docket 6680-UR-113 (December 19, 2003)

While both the period covered by this order lies outside the period reviewed in this report, decisions made in the Final Decision impact the review of appropriateness of 2002 results. In this rate case for the test year ending December 31, 2004, the Commission determined that the appropriate range for WP&L remained at 47.5 to 54.0 percent equity, on a financial basis, and ordered WP&L not to pay dividends, including pass-through of subsidiary dividends, in excess of \$88,940,000 if WP&L's actual average common equity ratio, on a financial basis, is or would fall below the test year authorized level (54.01 percent). The Commission also determined in that rate case that WP&L's off-balance sheet obligations associated with purchased power and operating leases should be based on a 60 percent factoring of the present value of the payments, and calculated the average equity ratio, on a financial basis for the test year at 54.01 percent, slightly above the equity range established.³⁰

13. Current restrictions and findings

As of this report, Alliant is not restricted from utilizing the funds received from WP&L as dividend payments to invest in non-utility investments. In addition, the Commission established an appropriate equity range of 47.5 to 54.0 percent equity on a financial basis, based on maintaining an "A"-rating. WP&L is restricted from paying dividends which exceed \$88,940,000 when the utility common equity ratio, on a financial basis, is or will fall below 54.01 percent. WP&L is able to increase the dividend payment at the end of the test year if earnings are higher than expected and payment of the increased dividend will not result in an average test year common equity ratio below the forecasted level.

²⁹ Primarily pages 8 – 9, 39 - 45 and 63 of the April 4, 2003, Final Decision.

³⁰ Primarily pages 7 – 8, 35 - 37 and 57 of the December 19, 2003, Final Decision.

Appendix E

Audit Findings and Recommendations

2002 – 2003 Audit

Required Holding Company Filings

The merger order³¹ requires Alliant to submit an annual holding company filing that includes such items as the annual filings with the SEC, a copy of the annual report to the stockholders, calculation of the asset cap on nonutility investments, and any audited financial statements or filings of nonutility affiliates. Since the materials filed with the SEC comprise a large portion of the annual holding company filing with the Commission, Alliant and WP&L have requested and received approval to submit this filing on May 1 each year rather than with their annual report to the PSCW on April 1. The filings due on May 1, 2002 and May 1, 2003 were filed as required.

WP&L is also required to provide an annual update to the Commission on the status of the Security Blanket program³² under the order in docket 6680-EI-103. The report for 2002 was filed, but is incomplete. The number of site visits is only provided through September, 2002, when the new ERP System was implemented. This data is not available under the new system.

There have been no complaints about this program for the past three or more years and the report no longer appears to be necessary. The utility should either develop a way to provide the information necessary for the report, or request that the Commission modify its order to eliminate this filing requirement.

Wis. Stat. § 196.795(6) requires that the holding company notify the Commission no more than 10 business days after the formation, organization, or acquisition of a nonutility affiliate and provide the Commission with information specified in subsections (a) to (c). As a general rule Alliant provides notifications of new investments on a quarterly basis.

The prior holding company audit found that for 2000 through 2001, individual notices were provided for many companies, but frequently did not include the date formed, organized, or acquired. The audit also found that there were 55 companies on Alliant's list of legal entities as provided in Appendix B of the prior audit report, for which it appeared no notification was sent to the PSCW.

Alliant has now provided information that indicates that most of these companies were either acquired as part of the acquisition of a parent corporation, or were companies that had undergone name changes. Alliant has made an attempt to improve its processes so that an ownership interest by Alliant through its indirectly owned subsidiaries and affiliates may be timely reported to the Commission.

Notices of new investments provided for 2002 through April 2003, were reviewed for compliance with Wis. Stat. § 196.795(6). There were notifications of 44 new investments and all

³¹ Docket 6680-UM-100.

³² This is a nonutility program of WP&L's which provides furnace and air conditioning maintenance and repair agreements.

but 4 of these included the necessary information as to formation, organization or acquisition date. Of the 40 notices with dates, 6 were filed on time, an additional 10 were filed within 30 days, 9 were filed in 60 to 120 days, and the balance were for companies acquired more than 120 days previously. Many of the late notices were filed as part of Alliant's efforts to identify and report subsidiaries of companies they had previously acquired.

Although Alliant has improved its reporting of nonutility investments, there were still some companies such as SmartEnergy Ventures, Inc., EUA Cogenex-Canada Energy Services Inc., APS Cogenex LLC, and Energy Developments Ltd. for which notifications were not provided. All of these companies are subsidiaries of other companies acquired directly or indirectly by Alliant. A question was raised during the audit as to whether Wis. Stat. § 196.795(6) requires notification of all of these indirect subsidiaries. As long as the investment in the indirect subsidiary is five percent or greater,³³ the Commission must be notified of its acquisition under this statute.

Under Wis. Stat. § 196.795(6)(d), information on assets and employees within and outside of Wisconsin is required to be filed annually by March 31. Alliant filed this information on time for both 2001 and 2002. A copy of the report for 2002 is included as Appendix C.

Affiliated Interest Review

Master Affiliated Interest Agreement Docket 6680-AU-109

On August 15, 2000, Alliant submitted revisions to the Service Agreements approved on February 8, 2000, in docket 6680-AU-109.³⁴ According to the filing the revisions were being made at the request of the Securities and Exchange Commission (SEC). A letter dated September 26, 2000, accepted the changes and required Alliant to file signed copies of the Service Agreements with the Commission no later than 10 days after all necessary regulatory approvals were received from the other states with jurisdiction. Signed copies were not received.

In February 2003, Commission staff requested copies of the current Service Agreements and found that the copies provided did not match the Service Agreements approved in September 2000. Agreements that matched the ones the Commission approved could not be located.

As a means of sorting this out, Alliant agreed in March 2003, to file the version of each agreement they believed to be current, including additional changes requested by the SEC, for Commission approval.

Amended agreements were sent to the states with jurisdiction over Alliant in May 2003. Since then, Alliant has asked that the review of the agreements be placed on hold. It appears that the service agreements approved by the various state jurisdictions may not be identical. The service agreements filed in May, when redlined to the prior approved agreements, produce different results for different jurisdictions. Alliant will therefore be working to incorporate all of the

³³ Every corporation 5 percent or more of whose voting securities is owned by any person owning 5 percent or more of the voting securities of the public utility or by a person in any chain of successive ownership of 5 percent or more of voting securities of a public utility is an affiliated interest under Wis. Stat. § 196.52(1).

³⁴ Two agreements are included under this docket, one for the Public Utility Companies, and the other for the Non-Utility Companies.

changes required by the SEC and each of the state commissions into one document which can then be filed for state approval in the first quarter of 2004.³⁵

Billings between Affiliates

A review of the Accounts Receivable balance for September, 2003, showed transactions between WP&L and several nonutility affiliates (WPL Transco LLC and IPL). Under the new ERP System some charges were being recorded directly from WP&L to other affiliates rather than being charged from WP&L to the Servco. Ultimately the costs were charged to the correct entity; however, there is no approved affiliated interest agreement to cover costs from WP&L to these nonutility affiliates.

In response to discussions with Commission staff, the ERP system was modified to correct this situation. The Accounts Receivable balance for October 2003 only reflects transactions with South Beloit Water, Gas and Electric and with Servco. Affiliated interest agreements are on file for both of these entities.

Sale of Accounts Receivable Program

WP&L has sold its accounts receivables, as approved in docket 6680-AU-110 dated September 21, 2001, in order to generate working capital. Recently, the accounting requirements for reflecting these transactions as sales of accounts receivables, rather than additional short term debt secured by a company's receivables, have become more stringent. In addition, analysts have become more inclined to view these transactions as another form of off - balance sheet financing. Alliant continued to sell accounts receivable to generate working capital under this program, although not all receivables eligible under the sales agreement are sold. WP&L continued to participate in the program, as needed, in 2003, although no receivables were sold under the program between July 2003 and December 24, 2003. WP&L last sold receivables under the program on February 12, 2004.

WP&L was required under the order in docket 6680-AU-110 to discontinue the sales program when any of its, or any participating affiliates', securities' ratings dropped below "A-" or A3 by S&P or Moody's, respectively. On March 12, 2004 Commission staff wrote WP&L regarding whether such condition have occurred. WP&L and Commission staff met on March 19, 2004, to discuss the issue and on March 26, 2004, WP&L informed the Commission that it has stopped selling accounts receivables, discontinued its participation in the accounts receivables program, inactivated WPL SPE, and taken steps to obtain the necessary resolutions of the Board of Managers to liquidate WPL SPE's investment in Alliant Energy SPE.

WP&L Rate Case Dockets 6680-UR-112 and 6680-UR-113

Adjustments were made in rate case dockets 6680-UR-112 and 6680-UR-113 to recognize changes made, in part, based on finding in the 2001 Alliant holding company audit and the 2003 audit which is discussed in this report.³⁶

³⁵ This has now been revised to the third quarter of 2004.

³⁶ Details of payroll findings are included in the following section of this report entitled "Officers' Payroll Allocations."

In docket 6680-UR-112³⁷, the Commission found that it was reasonable for WP&L to recover Alliant's officer compensation expense based on Commission staff's audited allocation percentages. Commission staff allocation percentages developed in that docket were based on the Audit Report on Alliant Energy Corporation for 2001, and Commission staff's analysis of the duties of each officer of Alliant.

The Commission order stated, "Therefore, executive compensation expenses shall be allocated in this rate case proceeding using a cost-causal relationship, based on a review of each officer's position and responsibilities. In addition, the method for allocating executive compensation shall take into consideration that WP&L has its own President who is responsible for the operation of the utility and that the time spent on utility activities by the top executives of Alliant may be considered management oversight on behalf of the Alliant shareholders to protect their investment in WP&L and the other utilities."

Based on the method used by Commission staff, even though Alliant has divested some of its non-regulated investments, the shared officers' responsibility to the major entities, Alliant, Servco, Alliant Energy Resources (AER), WP&L, and Interstate Power and Light Company (IPL), should remain unchanged.

In addition, based on information obtained in the current 2003 holding company audit, the percentage of 2002 pre-tax book losses associated with the non-regulated entities divested by Alliant is very small compared to such losses for the remaining non-regulated subsidiaries. Significant efforts by Alliant to divest some of these non-regulated assets have been underway and are continuing. This would indicate that even more attention is being paid to the non-regulated activities than in the past. While at some time in the future, the allocation of more executive compensation to WP&L may be warranted, this is not true at this time.

When applying the overall WP&L allocation percentage approved by the Commission in docket 6680-UR-112 to departmental labor balances determined by WP&L in docket 6680-UR-113, Commission staff decreased test year 2004 executive compensation allocated to WP&L by \$502,000. By adding an amount for pensions and benefits, and administrative and general loadings, the total reduction amounts to \$982,000. On a Wisconsin retail jurisdictional basis Commission staff's adjustment decreases the amount of officer salaries allocated to WP&L by \$797,000.

Commission staff also adjusted WP&L's share of charges from the service company from 40 percent as estimated by WP&L for the 2004 test year to 39 percent. This reduction was based on a review of historical averages during the current holding company audit. The result of the change in the allocation percentage is a decrease in total company operating expenses of \$1,497,000 or a decrease of \$1,337,000 on a Wisconsin retail jurisdictional basis.

Allocation of Officers' Time

In the prior Alliant holding company audit, emphasis was placed on review of the direct charging and cost allocation for officers' salaries. These sections were emphasized again in this audit in part to follow-up on the prior findings and recommendations, and in part to become familiar with

³⁷ The order in this docket was issued on April 4, 2003, and approved an increase in rates for WP&L for 2003.

the ERP System implemented by Alliant in 2002. Findings have not changed significantly from those in the prior audit.

1. Timesheet Review

Commission staff reviewed timesheets for 2002 through November 2003, for the individual who is the Chairman, President and CEO of Alliant. Group calendars were also reviewed.³⁸

The Chairman, President and CEO of Alliant is also the CEO of Servco and AER, and the Chairman and CEO of WP&L and IPL. The following changes have taken place since the prior audit:

This individual began filling out his own timesheet rather than having this done by his secretary.

Time charged to Edison Electric Institute (EEI) was specifically identified and was direct charged to WP&L, IPL, and South Beloit Water, Gas and Electric.

Time charged to EPRI was also direct charged to the utilities.

Charges for activities related to specific nonutility activities were separately identified and directly charged to Alliant or AER.

As a result, 18 percent of this officer's salary for 2002 was direct charged to AEC, 5 percent was direct charged to AER, and 3 percent was direct charged to the Utilities for a total of 27 percent being direct charged. The other 73 percent was allocated using the General Ratio³⁹ with the final result being 42 percent to IPL, 31 percent to WP&L, 8 percent to AER, and 19 percent to AEC.

It is unrealistic to believe that the individual who is Chairman, President and CEO of Alliant only spent 24 and 27 percent of his productive time on nonutility companies and functions in 2001 and 2002 respectively.

In the prior audit, Commission staff reviewed all of the timesheets for 2001 for the following officers of Alliant: the Chairman, President and CEO; the Executive Vice President and General Counsel; and the Executive Vice President and CFO, and found that only 5 percent of their combined productive time was charged to special projects or programs, 11 percent was allocated to specific entities, presumably based on a cost-causal relationship, and the majority of their productive time (84 percent) was charged to Code 10. Costs charged to Code 10 were then allocated using the General Ratio and resulted in only 5 percent being charged to the parent company and nonutility affiliates, 39.3 percent to WP&L, 38.1 percent to IES and 17.6 percent to IPC for 2001. In other words, 95 percent of the costs in the Code 10 category were allocated to the utilities.

³⁸ Commission staff also reviewed a sample of timesheets and group calendars for 2002 for several other officers of Alliant. Individual findings for these individuals were not significant and are adequately addressed in the total allocation figures for 2002.

³⁹ The General Ratio is discussed in more detail in the following section.

For 2002 the percentages for this group improved slightly. Approximately 23 percent was allocated to specific entities,⁴⁰ and the majority of their productive time (77 percent) was charged to Code 1001 (previously code 10). Costs charged to Code 1001 were then allocated using the General Ratio.

Cost allocations for the 24 officers of Alliant, Servco, IPL, WP&L and AER were reviewed for 2002. Product code 1001 was used by 11 of the officers for 49 to 92 percent of their time. On average 48 percent of the salaries for this group were allocated using the general allocator rather than being directly assigned to a project or a specific legal entity.

2. General Ratio

Time that is allocated to all entities (Code 1001) can be allocated based on many different Ratios as specified in Appendix A of the Service Agreements between Alliant, Servco, WP&L and other affiliated utility and nonutility affiliates. The General Ratio is used for all of the following functions: Accounting, Public Affairs, Legal, Finance, Internal Audit, Planning, and Executive.

The General Ratio is based on the ratio of costs directly charged or allocated to each entity to the sum of all Service Company expenses directly assigned or allocated using a cost-causal relationship⁴¹ in the prior twelve consecutive calendar months. For 2001, the General Ratio resulted in about 5 percent of the costs being allocated to the parent company (AEC or Alliant) and the various nonutility affiliates, and 95 percent to the utilities. For 2002 and 2003, approximately six percent is allocated to Alliant and the nonutility affiliates.

Servco's use of the General Ratio is in accordance with the service agreements approved by the Commission, except that this ratio is being used before all other avenues for charging costs have been exhausted. Section 2.2 of the services agreement indicates that "it is the intent of this Agreement that charges for services shall be distributed among the Client Companies, to the extent possible, based upon direct assignment. Appendix A states that to the extent practicable, time records of hours worked by Service Company employees will be kept by activity, project, program or work order. Where identifiable to a particular activity, project, program or work order, such costs will be directly assigned. Costs that are not directly assigned are then to be allocated based on cost-causal relationship. Costs for services of a general nature, remaining after the cost-causal allocation, are then to be distributed using the ratios.

The focus must be on ensuring that all costs are directly charged where appropriate and that the remainder is allocated on a cost-causation basis. The allocators (including the General Ratio) should only be used to distribute costs remaining after attempts have been made to use a cost-causation basis.

When the allocation ratios were approved by the Commission, it was with the understanding that most costs would be directly assigned. If it is not "practicable" for officers to keep records by activity, project, program or work order, in sufficient detail to enable most costs to be directly charged or to be assigned to a specific legal entity based on cost-causation, it becomes imperative that the ratio used to allocate the salaries have a cost-causation relationship.

⁴⁰ The spreadsheet provided was broken down by entity. No project specific data was listed.

⁴¹ Excluding fuel, gas purchased power and the cost of goods sold

Based on a review of the results of using the General Ratio, it appears that both the calculation of this ratio and the way it is being applied needs review.⁴²

3. Office Space – Headquarters Building

In the past, office space has been allocated based on the square footage of space occupied by each employee. The office space allocation for the new corporate headquarters has been changed to focus on the number of employees, and for Servco employees on the dollar value of each employee's salary.

Since the headquarters building is occupied by WP&L, AER, and Servco employees, the first step in calculating the space allocation was to split the building costs between entities. This was done by dividing the total building costs by the number of employees and then multiplying by the number of WP&L, Servco or AER employees respectively. Under this allocation each AER or WP&L employee receives an identical cost allocation for their office space. In February 2003, this calculation resulted in headquarter costs of \$331 per WP&L employee.

The headquarter costs for all Servco employees are put into a clearing account with the Servco share of other buildings owned by WP&L and IPL. The total clearing account facility costs⁴³ are then used to develop a loading rate which is applied to each dollar of Servco salaries. WP&L receives a share of the Servco clearing account based on the salaries of Servco employees directly charged or allocated to WP&L through use of the allocation ratios in the Service Agreement (Public Utility Companies). For February 2003, the facilities loading from Servco for the Chairman, President and CEO of Alliant was \$12,659. His Administrative Assistant had charges of \$1,118.

There are several problems with the methodology described above:

The general premise for use of a facility loading rate is that the greater the person's salary the larger their office space. Where this is probably true for some of the officers, it is not true for many staff positions where each person occupies a standard size cubicle regardless of salary.

The greater allocation to officers based on their greater salaries may be adequate to cover their larger offices and greater common space, but this is not easily determined under the loading rate method.

The amount allocated to each Servco person in the headquarters building is a commingling of costs from the headquarters building plus other buildings. A cost for just the headquarters building cannot be readily determined.

If office space is to be calculated as a loading rate, then it would be more equitable to use a loading rate for all of the employees located in the facility rather than the hybrid method described above.

The allocation of facilities charges to a given individual may appear reasonable under the above procedure, but the final allocation to WP&L, for example, will be based on the way the salary is

⁴² This is a repeat finding.

⁴³ Facility costs include some furniture and equipment as well as building costs.

allocated. If officer's salaries are charged to WP&L, but are later disallowed in a rate case, there will also need to be an adjustment to disallow the associated facilities charges.

Fair Market Value Study

Alliant conducts a fair market value study every two years. These studies are used to evaluate the reasonableness of compensation for the positions studied, and to compare cost to market value for services provided to WP&L by Servco and by WP&L to the nonutility affiliates. While the billings from Servco to WP&L are quite significant (\$118 million), the billings from WP&L to Servco are comparatively small (\$1.5 million) for 2002.

Commission staff reviewed the fair market value studies completed in 2001 and 2003, during this audit. Both the 2001 and the 2003 studies analyzed compensation levels for seven categories of employees: information systems, human resources, public affairs, investor relations, accounting (including accounts payable), finance (including shareholder services), and legal. The 2003 study expanded the accounting category to include tax and internal audit functions, and limited the review of the finance area to shareholder services. The 2003 study did not address the treasury department function, which was addressed in the 2001 study. Alliant selected the categories for analysis based on the number of employees in the various categories and their ability to make meaningful comparisons to compensation in the market.

Alliant's fair market value studies have a number of shortcomings. First, the consultant-prepared compensation studies⁴⁴ used in Alliant's fair market study were destroyed. Commission staff was therefore unable to determine that the methodology used and the conclusions reached by Alliant are appropriate. Alliant should retain the compensation studies supporting its fair market value study, until that fair market value study is superceded.

Second, the data used for the fair market value study, completed in early 2003, was two to three years old. This study compares Servco and WP&L salaries at the end of 2001 to market data from 1999 and 2000 adjusted for inflation to put it on a 2001 basis.

Third, Alliant's analysis used base salaries for comparison purposes, rather than total cash compensation or total compensation. Ideally, the fair market value study should compare fully loaded hourly rates to the fully loaded hourly rates charged by outside providers of similar services. If market data is not available for fully loaded salaries or wages, comparison of total cash compensation, including incentives and bonuses would also be preferable to use of base salaries, especially for officers and executives.

The studies were also limited in scope to the seven categories previously mentioned. There was no attempt to compare compensation levels to fair market value for other categories of employees.

⁴⁴ The studies used were: Towers Perrin Compensation Databases, Watson Wyatt ECS Survey Databases, and William M. Mercer Compensation Surveys.

Nonutility Services Offered by WP&L

Commission staff reviewed the nature of the nonutility services and products offered within the utility and the 2002 profit and loss statements for these activities. Commission staff found no indication that the utility was engaging in any prohibited enterprises. For 2002 several of the nonutility activities either lost money or showed a relatively small profit margin. Commission staff also noted some questionable expenses being charged against revenues for these activities. According to the utility, the results shown in the income statements may be misleading, due to problems with the implementation of a new accounting system in 2002. The utility indicated that training on the new accounting system will be provided in order to prevent the entry of erroneous data. A review of these projects in the previous holding company audit showed the nonutility services offered within the utility to be profitable as a whole.

Internal Audit

Commission staff reviewed the audit projects plan and selected audits completed by the internal audit department in 2002 and 2003. In particular, the Annual Servco audit contained findings and recommendations that are also relevant to this PSCW audit.

The findings and recommendations included the following:

Actual construction expense and material and supplies data for December 2002 was not available in February 2003, when the Servco allocators for 2003 were developed. The 2001 data was used. Actual data was still not available at completion of the audit in August 2003, but allocators will be reviewed and updated if necessary when actual data is received based on the company's response to the audit.

The Policy and Procedures (P&P) Manual needs to be updated to document the process for determining if a significant event has occurred per the 2001 SEC audit. The P&P Manual is also outdated due to the implementation of the new ERP System, and the target date for revision is January 2004.

Alliant and AER received very low percentages of direct charges through invoices or timesheets. From October 2002 to May 2002, only 20 percent was directly charged to code 1001 which is distributed to all legal entities and 12 percent was distributed to code 1025 which is distributed to the two utilities. From December 2002 through March 2003, the percentages were 17.6 and 17 percent respectively. The recommendation is to issue a written notice to employees on the importance of direct charging.

Employees are required to report all hours worked. For the period reviewed, 38 percent of Servco employees reported exactly 80 hours per pay period. The recommendation is to issue a reminder to employees to report the total hours actually worked.

The service agreements require that Servco provide monthly bills that identify all costs charged to each company for the prior month. With the implementation of ERP data to provide these reports is not available. The company will continue to work with the ERP financial support department to complete the required reports by January 2004.

Review of officer's timesheets showed that only nine officers had at least one percent of their time charged to Alliant. As of the third quarter 2003, all officers' time will be reviewed on a quarterly basis to determine if time allocations between the legal entities is

appropriate. The recommendation was also made to remind the leadership team of the importance of proper charging, especially for Alliant.

The SEC recommendation from 2001 that required changes to be made to the service agreements has not been implemented.⁴⁵

Summary and Recommendations

Timing of Filings

Commission staff recommends that Alliant continue to improve upon its policies or procedures to ensure that all required notifications of new nonutility affiliates be submitted within ten business days as required by Wis. Stat. § 196.795(6).

Master Affiliated Interest Agreement

Alliant did not file signed copies of the revised service company agreements as required in the PSCW's letter of September 26, 2000. Nor did the copies of the service company agreements reviewed during the audit match those that are on file at the PSCW.

Commission staff recommends that Alliant operate under the service company agreements approved in September 2000, until revised agreements can be filed and approved by this Commission. Changes to affiliated interest agreements cannot be put into place until written approval is granted by the Commission under Wis. Stat. § 196.52.

Allocations of Officers' Time and General Ratio

As required by the Service Agreement, more officer time needs to be charged on a direct or cost-causal basis. Use of the General Ratio (as well as other allocation ratios) should be limited to those costs that are general in nature and which cannot be directly assigned or assigned to a legal entity on a cost-causal basis. In the prior holding company audit, a recommendation was made to limit the use of the General Ratio to 20-25 percent of the total productive time. This recommendation can be viewed as a goal to be achieved by more strenuous direct cost allocation efforts.

The manner in which the General Ratio is calculated is producing unrealistic results as indicated earlier in this report. Commission staff recommends that the method used to calculate the ratio be reviewed to determine if separate ratios should be developed for payroll and for invoices, or if a general ratio based on a combination of assets, revenues and number of employees such as the one used by WPS Resources, Inc. would provide more reasonable results.⁴⁶ (Repeat Recommendation.)

If the costs subject to the General Ratio cannot be reduced significantly, it may be necessary to develop a new ratio which more realistically spreads costs to the parent company and the

⁴⁵ Approval was requested for Amended service company agreements in May 2003. During this audit, Alliant requested the review be held in abeyance pending the filing of revised agreements. See the section of this report entitled "Master Affiliated Interest Agreement" for more details.

⁴⁶ For 2001 WPS Resources's General Ratio resulted in about 41 percent being allocated to the nonutility affiliates.

nonutility affiliates. In the interim, costs for Officers and Executives of Alliant will need to be reviewed in detail in each rate case before the Commission to determine if the costs should be recovered from the ratepayers of WP&L.

Office Space – Headquarters Building

The hybrid method used by Alliant to charge costs for the headquarters building to WP&L, Servco and others, does not provide a clear cost allocation procedure.

Commission staff recommends that:

1. Alliant reconsider charging office space in the headquarters building based on square footage occupied. Costs should be allocated between the WP&L and other legal entities based on the function of the space. Common or open space used to give the building esthetic value (corporate image) should be charged to the parent company.
2. If Alliant decides to continue to use its current method, a study should be done comparing the impacts of using a square footage allocation with the hybrid method currently used, to demonstrate the dollar impacts of each method on WP&L for 2002 and 2003. Alliant should notify the Commission within 60 days of the date this report is finalized that a study will be done and provide an estimated completion date for the study.

Fair Market Value Studies

Commission staff recommends that Alliant retain any data or compensation studies used in preparing its fair market value study at least until that fair market value study is superseded by a new and fully documented study.

Commission staff recommends that the most recent available data be used in preparing the fair market value studies. For example, 2002 salaries/wages should be used in preparation of the 2003 study and compared to the most current market data available.

Commission staff recommends that Alliant either provide documentation showing that the vast majority of the service company employees fall within the categories covered by the fair market value study, or expand the scope of the fair market value studies to include all or most of the positions within Servco that are allocated to WP&L, or within WP&L and shared with Servco.



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RE: Public Service Commission of Wisconsin Report
to the Legislature on the Operations of Alliant
Energy Corporation

File 9403

Dear Ms. Braun:

Thank you for the opportunity to comment on the Public Service Commission of Wisconsin (Commission) report to the Legislature on the operations of Alliant Energy Corporation (AEC) for 2002-2003. AEC agrees with the majority of the analyses and findings in the report. However, there are portions of the report that AEC believes are inaccurate, and AEC will continue to work with the Commission to address those matters. AEC would like to thank the Commission for its efforts relating to this report and, again, an opportunity to be heard in this matter.

Sincerely yours,

Ritchie J. Sturgeon
Senior Regulatory Attorney